

UNIVERSITY OF TAMPERE
School of Management

**SHOPASSURANCE – RETAILERS’ ENTRY INTO
PERSONAL INSURANCE FROM THE BUSINESS
MODEL PERSPECTIVE**

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ABSTRACT

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Insurers have been looking at new distribution channels for several decades. Bancassurance gained traction as insurers and banks sought to capitalize on the seemingly large cross-selling possibilities. In Britain retailers have emerged as new partners with which financial services providers started partnering up to offer banking services and insurance. However retailers soon started looking for a more active role in the financial services business because of the profitable new business areas and the chance to increase customer loyalty. Retailers started moving beyond strategic alliances and set up joint ventures with insurers that were later on wholly acquired by the retailers. The offering of insurance services, shopassurance, was seen as the final phase in this evolution of retailer financial services offering.

Despite these developments little research has been conducted on shopassurance so far. For the most part shopassurance has solely been seen as a new distribution channel. This study aims to create a broader understanding of shopassurance by viewing it from the business model perspective. The business model was popularized as a concept during the dot-com bubble and has continued to evolve ever since. It has received noticeable attention also in recent business research. A literature review of existing research on retailer financial services offers a general overview. Shopassurance case examples are then analyzed from the business model perspective to identify any emphasized business model elements and differences in relation to traditional insurance business models. In the final part Finnish retail and insurance actors are interviewed in order to gain Finnish perspective into the phenomenon.

Through this study it becomes evident that when shopassurance is looked at from the business model perspective it is not just a question of distribution but rather it represents a larger change in how shopassurers can create, distribute and capture value. As the level of retailer influence in the business models increase the divergence from traditional insurance business models grows driven by the customer centric approach that is common practice in the retail business. From a Finnish perspective shopassurance is still fairly undeveloped but according to the experts interviewed it represents interesting future possibilities especially if developed with a focus on on-line service possibilities.

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1 INTRODUCTION

The types of companies that are competing in the insurance market space have undergone restructuring. The first decade of the new millennium oversaw several mergers in the financial industries sector when banks and insurers formed financial conglomerates, which aimed at satisfying all financial needs of customers ranging from savings accounts to homeowners' insurance. But it wasn't just banks that started moving in on the insurance market space. Traditional retailers in the United Kingdom such as Tesco and Sainsbury began offering insurance products to their customers in the turn of the millennium and others have followed suit with varying business models ever since.

Retailers' entry into the financial services business has been studied mainly with a focus on banking activities. Even though there are currently several retailers that offer insurance products little research has been conducted on them so far, even though insurance has been seen as the final phase in the development of retailers' financial service offerings. Shopassurance refers to the distribution of insurance products through existing retailer channels. This study aims to take a broader view on shopassurance by analyzing it from the business model perspective. The existing research on retailers' financial service offerings has covered such topics as brand extension, relationship theory and customer acceptance with a focus on banking services. While these may be applicable to the offering of insurance services as well, the business model, as a more general representation, gives the opportunity to build on these views in order to establish a broader understanding of shopassurance.

A literature review of studies on retailer financial services offerings is conducted to establish a base of current knowledge on the topic and to identify the research gap with regard to the offering of insurance products. The business model is then used as a framework to create representations of four existing shopassurance business models. The findings are then reviewed in comparison to a typical insurer's business model. Finally interviews are conducted with Finnish experts of retail and the insurance

business to gain insight into a possible shopassurance business model in the Finnish context.

1.1 Background & Previous Research

The existence of cross-selling arrangements of financial products between banks and insurance companies is not a new phenomenon. Both industry sectors are involved in the financial intermediary business that pool the savings of individuals and then channel funds to capital expenditures. According to Voutilainen (2004) both lines of business share common traits such as economies of scale, liquidity creation, risk management and laws of large numbers. The distribution of insurance products via banks has been generating global interest for some time now (Benoist 2002). The term bancassurance can be broadly defined as a joint effort of banks and insurers to provide insurance products to the bank's existing customer base (Swiss Re 2007).

According to Chen & Tan (2011) the bancassurance phenomenon gained traction thanks largely to the deregulation of financial services across the world and the series of mergers and acquisitions that followed. These developments have blurred the traditional boundaries of the financial services industry and financial conglomerates that offer a wide range of financial services are increasingly dominating the industry (Kamakura, Wedel, Rosa & Mazzon 2003). Teunissen (2008) stated that bancassurance can be seen to create benefits for banks and insurers, as well as customers, and it is still expected to keep developing further.

Other interesting partnerships are being forged in and outside the financial sector. The more natural partnerships between banks and insurers have been the topic of several studies and the phenomenon of bancassurance is widely recognized. Other new models of co-operation between the retail industry and the financial services industry have been studied but so far little focus has been given to the topic of shopassurance.

One of the first studies on retailer led distribution of financial services was conducted by Colgate & Alexander (1998) who studied banks, retailers and their customers from

a relationship marketing perspective. Colgate & Alexander (2002a) sought to identify the motives for retailer entry into the financial services market. Colgate & Alexander (2002b) and Laforet (2007) have studied the phenomenon within a product augmentation and brand extension framework. These studies focused on the barriers of product augmentation and also on the customer perspective of retailers' possible brand extension operations into banking services. Alexander & Pollard (2000) and Lindblom (2002) have approached the subject with a relationship framework that studies the different parties involved in selling financial services via retailers. The studies clarify how the relationships between the parties vary depending on the choices that are made with regard to strategic alliances.

At the time of writing no research exists on shopassurance from a business model point of view. Shopassurance has been discussed in relation to insurer's channel strategies (e.g. Ray 2005). While the motives of retailer entry into financial services have been studied, the different aspects of shopassurance have not been discussed from a broader perspective. There has also been no main focus on insurance services as the topics have focused on retailers' banking services or financial services in general.

The insurance industry has regularly been put under scrutiny for its inability to innovate and reinvent itself. While incremental product innovations and fine-tuning of business processes is a regular occurrence in the insurance industry, holistic innovation conducted on the business model level has been rare. Studies conducted by global consulting firms (e.g. Accenture 2012; PwC 2012, IBM 2012) estimate that the insurance industry will face several challenges in the near future among which are new regulation, heightened customer expectations and tighter competition partially brought on by newcomers to the industry.

1.2 Research questions

Retailer entry into financial services is a phenomenon with many sides. Retailers' financial services offerings have been researched from a channel, relationship marketing and brand extension point of view. Risso (2010) identified insurance as an

element of the final phase in the evolution of financial services in retail companies. While the earlier phases that included payment services and credit services have already been the focus of previous studies little research exists on retailer's insurance offerings.

The aim of this study is to approach the shopassurance phenomenon with a broad scope and to gather the previous research on retailer financial service offerings into a manageable framework by putting it into the business model context. A Finnish perspective to shopassurance will also be introduced by conducting expert interviews with possible future shopassurance actors in the Finnish insurance market in an attempt to provide insight into a possible shopassurance business model in the Finnish market.

This will be accomplished by answering the following research questions:

How can the shopassurance phenomenon be understood from a business model perspective?

The taking of the business model perspective can be seen as a bridge with, which to connect the previous studies on the topic of retailer financial service offerings. By choosing the business model as a whole as a unit of analysis, rather than certain elements on their own, the previous research can be included into the business model framework. The business model has increasingly become the unit of analysis when looking at sources of competitive advantage. Product innovation or channel innovation for example does not suffice in today's quick paced markets but rather companies need to innovate on the level of the business model (Teece 2010, Chesbrough & Rosenbloom 2002).

Bettis (1998) has pointed out that strategic management research is usually overly focused on certain units of analysis, which he calls the usual suspects. These are the competitive entity, the environmental entity and the organizational entity. The environmental entity is concerned with the industry, which is understood as various business units that are producing close substitutes. While this study is concerned with the environment of the insurance industry and the various strategic aspects associated

with shopassurance, the unit of analysis will not be the business units, the retailers or insurers, but rather the shopassurance business model and its elements.

Are any particular elements emphasized in the shopassurance business model?

The second problem is posed to find out if any elements of the shopassurance business model are emphasized over others. This may provide possible clues as to sources of competitive advantage in the shopassurance business model. It will also serve to provide clues for the themes for the expert interviews that are going to be conducted in the second phase of the study. Describing existing shopassurance business models and analyzing them from a business model perspective will answer the second question.

The third research problem is:

How do the possible future actors of shopassurance in Finland view the phenomenon?

The third research problem focuses on the shopassurance phenomenon in the Finnish personal insurance market. The problem will be answered by conducting semi-structured interviews with experts representing both the retail and insurance businesses. The main themes for the semi-structured interview will arise from the findings from the first and second research problem. The aim is not to evaluate whether or not the shopassurance model would be viable in Finland but to gain an understanding of how the different parties view the phenomenon. In the end a possible shopassurance business model for the Finnish market will be presented based on the results of the interviews.

1.3 Methodology

A descriptive study is aimed at portraying an accurate description of persons, events or situations (Saunders, Lewis & Thornhill 2007). In order to conduct a descriptive study it is necessary to have a clear picture of the phenomena prior to the collection of data. Often in management research descriptive research is used as a forerunner for

exploratory research. In this case it can be seen as a means to an end. Due to the fragmented nature of the previous research on shopassurance a descriptive research approach is first utilized by conducting a literature review. The first phase of the research process will show traits of an inductive approach. The literature review and the subsequent depiction of the business models shopassurers and their various aspects will guide the themes for the expert interviews.

Robson (2002) states that an exploratory study is viable when trying to find out what is happening, to seek new insights and assess phenomena in a new light. According to Saunders, Lewis & Thornhill (2007) there are three principal ways on conducting an exploratory study: a search of literature, interviewing experts and conducting focus group research. The main advantage of exploratory research is its flexibility and adaptability to change. As new data and insight arises the researcher must be willing to change direction if deemed necessary. However as Adams and Schvaneveldt (1991) point out the flexibility in exploratory research does not mean the absence of direction. Rather it means that the initially broad focus of the research will become narrower as the research progresses. After the literature review this research veers towards an exploratory study where the aim is to explore the views on shopassurance in the Finnish context and possibly gain new information on the phenomenon from a different national context than in previous research.

The research strategy that will be employed in this study will above all be a case study (see figure 2). Robson (2002) states that a case study is a strategy for doing research that involves an empirical investigation of a phenomenon within a real life context. According to Saunders et al. (2007) the types of questions most concerned with a case study are the “what?” and “how?” types. Because of this the case study strategy is most often used in explanatory and exploratory research. The various methods used for data collection within a case study vary considerably. Methods such as observation, documentary analysis, questionnaires and interviews can be used.

Case studies may be categorized into different types based on two dimensions (see table 1). This research can be identified to be a multiple case study. The phenomenon in question is shopassurance and in the first phase of this thesis the cases are the four existing shopassurance business models. However with regard to the unit of analysis

this study will show traits of an embedded case. That is to say that even though the focus is on the business model as a whole, it can be divided into more manageable sub-units according to the different definitions.

Table 1 Classification of case studies (based on Saunders et al. 2007, 145-147)

Amount of Cases	Single Case The single case selected is a critical or a unique one or because it is typical and allows the observation of a phenomenon from a varying perspective.	Multiple Case Multiple cases are used in order to establish whether the findings are similar and generalizations can be made.
Unit of analysis	Holistic Case If the target of research is treated as a single unit of analysis that is to say as a whole, then the research is as a holistic case study.	Embedded Case If the target of the research is examined in sub-units that comprise the target then the case study will involve more than one unit of analysis and is treated as an embedded case study.

The empirical data on the shopassurance business models will be gathered from the companies' respective websites and related news articles. In the second phase the empirical data will be collected by semi-structured interviews conducted with industry experts, from both the insurance and retail industries. Once the data is gathered it needs to be analyzed in order to make conclusions. (Saunders et al. 2009)

There are several different methods for analyzing qualitative data. While analyzing qualitative data is important the meanings of the data must also be understood. The different data analysis methods include both inductive and deductive approaches and range from categorizing responses to identifying relationships between categories. Once the interviews for this study have been conducted the recordings will be transcribed in order to facilitate further analysis. Both the information on the existing shopassurance business models as well as the interviews will be analyzed using a deductive approach, where existing theory has been used to formulate and frame the research questions, it will also be used to organize and direct the data analysis process. Bryman (1989) points out that special attention must be paid while using a deductive approach with existing theory because of the risk of introducing premature

closure on the investigated issues. The business model theory used to frame the research does not offer strict guidance on analysis and thus the risk is mitigated.

1.4 Literature review

In order to gain insight into shopassurance a literature review was conducted. The main following scientific databases were queried: EBSCOhost Business Source Elite, Wiley Online Library and ScienceDirect. The search was conducted with author-supplied keywords. The following keywords were used: retail, insurance, banking, financial services, bancassurance, and shopassurance. Most notably the keyword shopassurance did not return a single hit in any of the databases. The main focus of the literature review was on articles dealing with either retailers offering financial services or financial service providers offering products via retailers. The keyword pair retail and insurance did not return any relevant articles on the viewpoint of this research.

Shopassurance has not been approached as a unique phenomenon, in the same way that bancassurance has. Instead the focus has been on a broad definition of financial service offerings that are being distributed via retailers existing channels.. The current literature on retailers' offering of financial services is concerned with only certain aspects of the phenomenon from limited points of view such as a relationship theory point of view, from a brand point of view and a more general view of expanding retailers' businesses into new markets.

There is an abundance of research conducted on business models. Since 1995 over a thousand papers have been published on the topic (Zott, Amit & Massa 2010). A lot of focus has been given to the definition of the business model and consequently also to the various visual representations. Research has also been conducted with the intent to classify various business models especially in the context of e-commerce (Timmers 1998; Mahadevan 2000; Dubosson, Osterwalder & Pigneur 2002).

2 SHOPASSURANCE

As bancassurance refers to the selling of insurance services to a bank's existing customer base through the bank's distribution channels, shopassurance generally refers to the selling of insurance products to the retailer's customer base by using the retailer's channels (Campbell & Webersinke 2010).

2.1 Retailers venturing beyond their core business

With the increasing competition within the retail market, traditional retailers have started to look outside their core businesses for new growth opportunities. United Kingdom's biggest retailer Tesco (market share 29,7% in February 2012; The Guardian 2012) outlined in its 1997 strategy that they aim "to be as strong in everything we sell as we are in food" (Tesco, 2012). In addition to traditional brick and mortar food retailing Tesco is currently active in at least the financial services market, the gasoline market, Internet grocery retail market, Internet and communications services market and in the video-on-demand services market. The same development can be observed in Finland where Finland's largest retailer the S Group (market share 44,1% in 2010; PTY 2011) has entered into the financial services sector by launching its own bank business in 2007 under the S-Bank brand.

Retailers offering financial services are by no means a new phenomenon. Retailer credit has been an important element of the banking network in the past as Morris's (1993) study of 20th century retail trade in Milan demonstrated. Retailers have historically used financial services to attain and retain customer loyalty. Harrods, a famous high-end retailer in the United Kingdom, has been using financial services to enhance customer loyalty since 1983 (Colgate & Alexander 2002a). Since the 1990's retailers' ventures into the realm of financial services have intensified. Finnish retailers have also used varying financial services to attain customer loyalty. For example Stockmann, a Finnish high-end retailer, used to offer its' loyalty customers the possibility to make purchases with in-store credit that was linked to its' loyalty card scheme. In 2008 Stockmann signed a deal with Nordea, the biggest financial

services group in Northern Europe, and started offering Stockmann branded Master Card credit cards bundled with its customer loyalty scheme.

In 1996 Tesco and Sainsbury, a UK based retailer, started providing their customers with instant access savings account services, which were provided by Natwest for Tesco and Bank of Scotland for Sainsbury. However both retailers promoted the services in-store with their own brands. Safeway, a UK based retailer, also introduced deposit accounts in 1996. These services were provided by Abbey National but differed from Tesco and Sainsbury as they were promoted under the Abbey National brand and not the retailers brand. While retailers continued to develop their banking services to customers by adding savings accounts and credit cards to their service offerings, they also started introducing insurance products to their customers. In 1997 Tesco started selling travel insurance that was provided by Direct Line, a UK based insurer, but sold in-store under the Tesco Brand. By the year 2000 Tesco, Asda, a UK based retailer, and Sainsbury were providing insurance products in the travel, home and pet insurance segments. (Alexander & Pollard 2000)

The actions taken by Tesco, Sainsbury, Asda in cooperation with Directline, Lloyds-TSB and RSA (formerly the Royal and Sun Alliance) in starting to sell insurance products to their customers are examples of shopassurance.

2.2 Motivation

The motivation behind offering financial services in the retail environment has been studied from the retailer and the traditional financial service providers' viewpoints. Most of the research has focused on why retailers are interested in entering the financial services market (Alexander & Pollard 2000; Colgate & Alexander 2002a; Risso 2010). The research has mainly been conducted in the UK and Australian markets. The fact that British grocers such as Tesco and Sainsbury pioneered retailers' financial service offerings may explain why the focus has been on these countries. From the customers' point of view the focus has been on examining fit, perception, risks and trust in the retailers brand extension into financial services (Laforet 2007). The financial services companies' point of view has mainly been

studied from a relationship framework perspective with a focus on banking in an aim to understand the changes in the customer-bank-retailer interface (Colgate & Alexander 1998; Lindblom 2002).

2.2.1 Retailers

The retail food market is characterized in many developed countries by hyper-competition where a few large retailers dominate the market. This holds true also in Finland where S Group and Kesko together controlled 79,1 % of the retail market in 2010 (PTY, 2011). According to Risso (2010) large retailers seem to be motivated to enter the financial services market mainly due to hopes that they can better cope with the increasing competition in their main business area and also in an attempt to improve customer relationships. Colgate and Alexander's (2002) study of the motives of retailers to enter the financial services market in the UK and Australia also yielded similar results. The fact that financial services make a direct contribution to profits was acknowledged but the main focus of the perceived benefits had to do with building stronger relationships with customers.

Risso (2010) argued that the financial services offerings of retailers' become more complex as they continue to develop. In addition the aims of the retailers evolve over time (Figure 1). Retailers would seem to expand their financial services offerings according to their strategic vision of gaining a wider target market. The same pattern can be observed in the development of Tesco's financial services offering. According to Risso especially savings and insurance offerings are used as a marketing tool with the aim of boosting customer loyalty. Savings, investments and insurance pertain a more rigid relationship with the service provider as opposed to payment services or even credit card services.

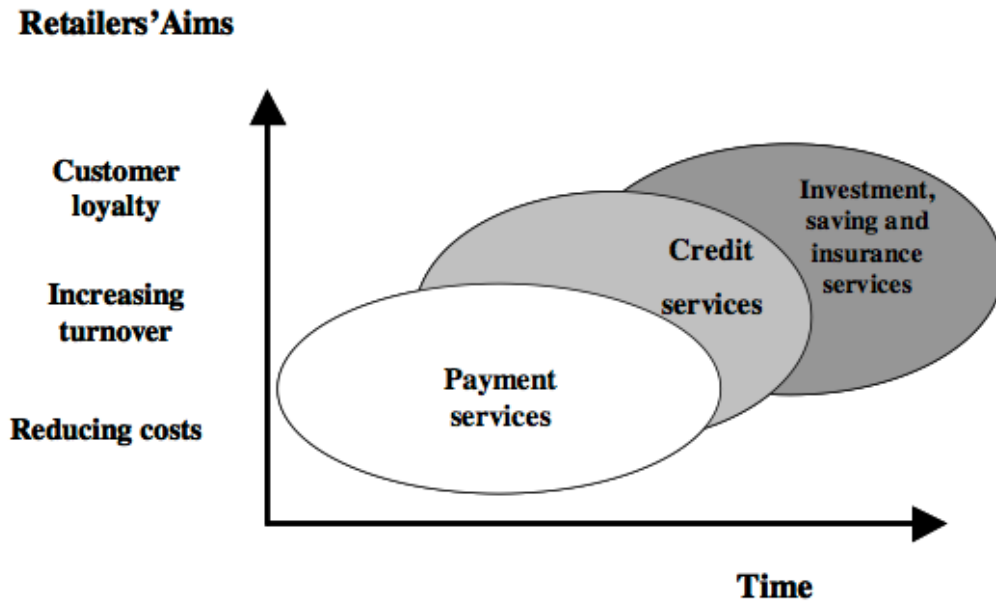


Figure 1 Evolution of Financial Services in Retail companies (Risso 2010, 65)

2.2.2 Financial institutions

From a relationship framework point of view Lindblom (2002) suggests that the main intersection points between retailers, banks and customers are concentrated around the point of sale (POS). Generally speaking all three parties are usually involved in the POS and are interrelated to a varying extent. The evolution of retail banking and retailing can thus be analyzed within a relationship framework. Lindblom frames a triadic relationship between customers, retailers and banks. When the relationships between all parties are well balanced and equally long the triadic relationship is as illustrated in figure 2. Lindblom (2002) focuses on the relationship distances between the parties involved at the POS in different scenarios that Colgate and Alexander (1998) suggested based on their earlier research (Table 2).

The relationship distances would then change depending on how retail banking was arranged. If the retailer for example chose to enter the financial services market by providing its customers with its own proprietary banking services the relationship distance between the Customer and Retailer would shorten and the relationship between the customer and bank would become longer. (Lindblom 2002)

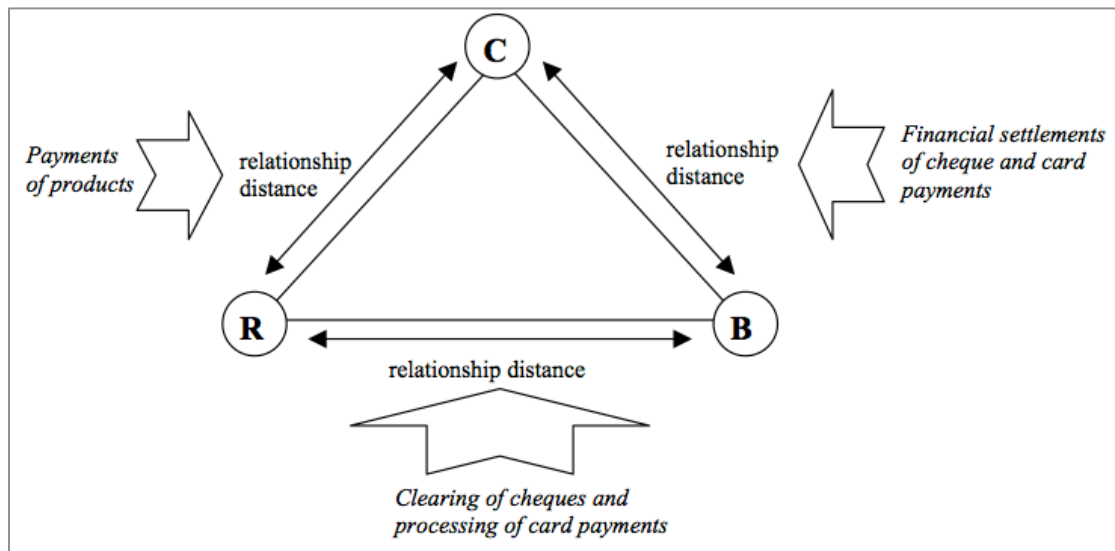


Figure 2 traditional triadic relationships at the POS (Lindblom 2002, 4)

Table 2 Scenarios of banking services offered by retailers (Colgate & Alexander 1998, 146)

Financial services scenario	Type of activity	Examples
1. Traditional retailing-banking interface	Use of cheque or debit card to purchase retail goods	Most retail and banks offer these facilities
2. Electronic agencies	Use of retailer to provide financial services on behalf of banks	BankSA, Australia
3. Banks issued retail store cards or retailer issued store cards	Credit facilities offered through retailer-branded store cards. These cards can be issued by either banks or the retailers themselves	Farmers, New Zealand (retail issue), Laura Ashley, UK (bank issued)
4. Macro retailer financial relationships	Other "macro" banking services other than store cards, e.g. personal loans, pensions	Marks & Spencer, Tesco and Sainsbury's, UK

Colgate and Alexander (1998) highlighted the nature of data collection and ownership within these different scenarios, as it is an integral part of the CRM function. Depending on how the retail banking activities were arranged the party who had ownership over the customer data that was gathered changed. If the banking services were offered under scenario four in table 2 then the retailer could use the banking data gathered to deepen its customer knowledge.

2.3 Forms of shopassurance

The selling of insurance products via retailer channels may be done in different ways. In order to gain a better understanding of the variations and to better elaborate the

strategic choices involved in setting up shopassurance activities a classification that has been used in the bancassurance context will be used. Teunissen (2008) defined four different models for bancassurance on the basis of legal ownership. The main models are the pure distributor model, the strategic alliance model, the joint venture model and the financial holding company model. Four shopassurance cases from around the world will now be used to elaborate on this categorization.

2.3.1 The pure distributor model

In the pure distributor model the retailer acts simply as an intermediary offering products of several insurance companies. The insurance company then pays distribution commissions to the retailer to compensate for this service. To insurers the main disadvantage of this option is the limited control over to which customers the products are sold to (Teunissen 2008). The regulatory aspects of selling insurance in retail channels must also be taken into consideration. As the regulation differs from country to country it is necessary to treat at each new geographical market, as its own case from a regulatory viewpoint.

An example of a distributor model can be found in Germany where a supermarket chain offered a bundled insurance package that covered personal accident, legal expenses and an accident and breakdown cover. The insurance was offered packaged into boxes that contained documentation, an application form and a PIN number to facilitate the purchase. If a customer chose to buy the coverage they could register for it online and the certificate of insurance was mailed to them afterwards. The initial purchase price of 49€ was offset against the required insurance premium. If the customer decided against the policy after the initial purchase a refund of the initial purchase price was available on the return of the box and receipt to the retailer. (Giese 2010)

If retailers are to act as pure distributors the insurance products that are going to be offered will most likely need to be fairly simple and easy to comprehend so that they can be sold with little involvement from the retailer. Solutions such as the one in Germany are likely to be implemented. In the United States MetLife, a US based life insurance company, started offering prepaid life insurance policies at about 200 Wal-

Mart Stores Inc. (Walmart) locations. Walmart is a US based discount department store. The policy is good for a year and offers coverage of up to \$25 000. Customers in essence will buy a prepaid card that holds a value with equivalent to the cost of the policy. Once they have purchased the card they then have to call MetLife to answer health related questions in order to activate the coverage. (Tracer 2012)



Figure 3 MetLife: "Whistle" -advertisement (Youtube 2012)

2.3.2 The strategic alliance model

A strategic alliance between the insurance company and retailer entails that the retailer sells exclusively the insurance products of its ally. Advantages for the retailer include the possibility to choose a partner that offers the best possible insurance services in terms of product quality and integration of sales systems. The insurance company in return gains access to the retailer's customer base without making any large additional investments. However the overall level of integration remains low between the retailer and insurer, as both companies continue to operate individually. (Teunissen 2008)

One interesting type of strategic alliance model implemented between retailers and insurers is the white labeling of insurance. The Financial Services Authority, FSA, (2009) in the United Kingdom considers white labeling to include arrangements where a product or service is offered under the brand of one company (distributor) while a separate company (producer) actually makes the product or provides the service.

An example of white label insurance is the strategic alliance between Johnson Inc., a Canadian insurance company that is part of RSA, and Canadian Tire, a Canadian retailer with offerings in automotive, living, fixing and financial services. Through the strategic alliance Johnson Inc. distributes insurance services under the Canadian Tire Insurance Services brand name. While the Canadian personal P&C market has traditionally been broker led Johnson Inc. has reported that the white label arrangement with Canadian Tire has proven successful. (Canadian Top Insurance Broker 2012)

An important aspect of white label insurance products is how they are marketed to consumers. While national regulation varies it is commonly accepted that the marketing of financial services needs to be clear, fair and not misleading. These principles are also brought up in MiFID, the Markets in Financial Instruments Directive (Financial Services Commission 2007). According to the Financial Services Authority (2009) an essential part of meeting this requirement is that promotions make clear to customers the firm, with which they are entering into a contract with. While marketing white-labeled insurance to customers retailers must communicate clearly who the insurance provider is. Retailers cannot therefore give the impression that the insurance is provided by them. They also must not portray themselves as insurers as they do not hold the relevant permission for that activity.

The screenshot displays the Canadian Tire website interface. At the top, the Canadian Tire logo is visible alongside links for 'Weekly Flyer', 'Email Sign-up', and 'DIY Centre'. A navigation bar below the logo lists categories: TIRES & WHEELS, AUTOMOTIVE, SPORTS & REC, TOOLS & HARDWARE, HOME, KITCHEN, OUTDOOR, and MORE. The main content area features a grid of product categories with sub-items and 'See more' links. A large promotional banner on the left reads 'SAVE on all wi' with logos for MICHELIN and GOODYEAR. Below the grid, three featured product sections are shown: 'Selected furniture Save up to 50%' with an image of a wooden cabinet, 'Selected Tool Storage Save up to 50%' with an image of a Mastercraft tool chest, and 'Selected vacuums Save up to 50%' with an image of a Cleanpath vacuum.

CANADIAN TIRE®

Weekly Flyer Email Sign-up DIY Centre

TIRES & WHEELS AUTOMOTIVE SPORTS & REC TOOLS & HARDWARE HOME KITCHEN OUTDOOR MORE

SAVE on all wi

MICHELIN

GOODYEAR

† Off our regular prices. While supply.

Shop now ▶

Fitness & Wellness

- Weights & Accessories
- Treadmills
- Boxing
- Exercise Bikes
- Benches & Home Gyms
- See more

Winter Sports

- Baby Sleds
- Pleasure Skates
- Snowshoes
- Snow Sleds
- Curling
- See more

Camping

- Air Beds
- Camping Stoves & Appliances
- Sleeping Bags
- Tents
- Coolers
- See more

Ice Fishing

- Ice Fishing Rods & Reels
- Lures
- Ice Fishing Line
- Shelters
- Augers
- See more

Hockey

- Skates
- Street Hockey
- Head & Neck Protection
- Hockey Sticks - Composite
- Hockey Accessories
- See more

Hunting

- Archery
- Hunting Apparel
- Hunting Footwear
- Eye & Hearing Protection
- Heaters
- See more

Bikes & Accessories

- Bikes - Children
- Bike Accessories
- Bikes - Mountain
- Bikes - BMX
- Helmets & Gloves
- See more

Kids' Sports

- Kids' Hockey Skates
- Kids' Hockey Protective - Helmets
- Kids' Hockey Sticks - Composite
- Kids' Hockey Sticks - Goalie
- Kids' Snowboarding & Snow Shoeing
- See more

View All ▶

Activities

Selected furniture
Save up to 50%

Selected Tool Storage
Save up to 50%

Selected vacuums
Save up to 50%

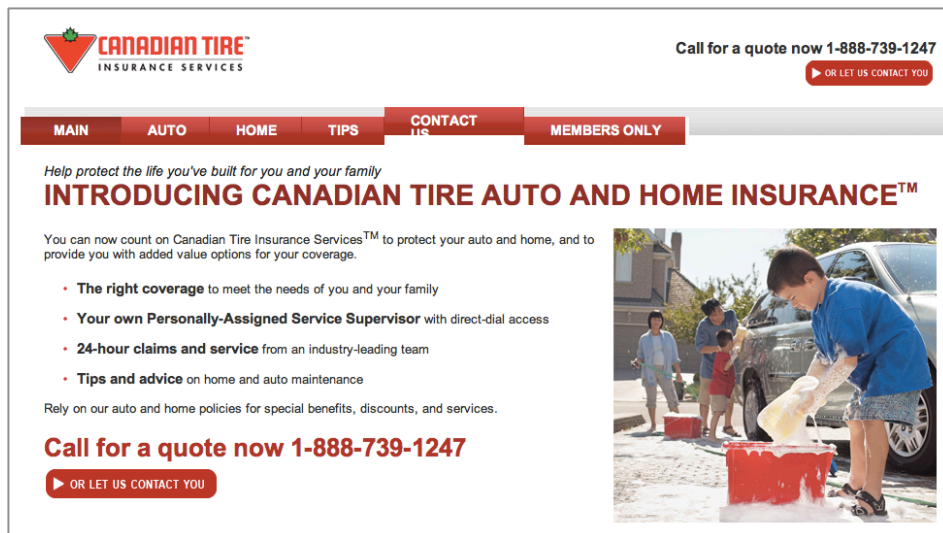


Figure 4 Canadian Tire and Canadian Tire Insurance Services home pages (Canadian Tire 2013)

2.3.3 The joint venture model

A joint venture model of shopassurance is present when a retailer and an insurer have established a jointly owned insurance company and as such have created a new entity. In the bancassurance context the joint venture insurer distributes its products only through the network of its banking parent (Teunissen 2008). In the shopassurance context a similar distinction can be made since the currently existing joint ventures between retailers and insurers have focused their distribution efforts in the physical brick and mortar outlets of the retailer parent and in telephone and internet distribution channels that are provided under the joint venture brand. Advantages of the joint venture model according to Teunissen (2008) include the possibility to leverage both partners' strengths as both can still continue to focus on their respective lines of business as well.

The joint venture model is currently most noticeably present in the Indian insurance market where several global insurers have sought to gain access to the growing Indian personal P&C market by creating joint ventures with prominent local actors. The creation of joint venture companies in India can be partly attributed to local insurance legislation that dictates that insurers operating in India may have no more than 26 % foreign ownership (IRDA 2007). For example American Insurance Company, AIG, partnered with the Tata Group, an Indian multi business corporation, to establish the

Tata AIG General Insurance Company (Tata AIG 2013). Tata AIG is currently offering both life and non-life insurance products.

Another prominent example of shopassurance deployed with the joint venture model is also operating in India. Future Generali is a joint venture between the Indian based retailer the Future Group and the Italian based financial conglomerate the Generali Group. The Future Group is involved in several lines of business across the consumption space. However the core of the Future Group is formed by its retail operations. The flagship enterprise of Future Group is Pantaloon Retail that operates in 71 cities and towns and in 65 rural locations in India. Pantaloon Retail is active amongst others in the lifestyle segment, fashion, sportswear and hypermarket sections. The Generali Group is one of Europe's biggest insurance providers and one of the world's top asset managers with assets in excess of over € 400 billion. The Generali Group owns 26% and Future Group 74% of Future Generali. (Future Generali 2013)

Shopassurance, or mallassurance as Future Generali refers to it, was established to leverage the massive 2-million people customer base of Future Group's brand outlets such as Big Bazaar and Pantaloon. In 2010 the COO of Future Generali said that they currently had no plans to expand their distribution beyond the Future group's retail outlets (FE Bureau 2010). This supports the original definition of the joint venture model in the shopassurance context. Future Generali is active in both life and non-life insurance through Future Generali India Life Insurance Company limited and Future Generali India Insurance Company Limited (Future Generali 2013). As to the possible potential of attracting new customers in the growing Indian personal insurance market Future Generali reported in 2010 that it had acquired over 450 000 customers in just two years since the start of the venture (Future Generali 2010;2011).



FIGURE 5 FutureGenerali Mallassurance advertisement in Future group retail outlet (Futuremedia 2013)

2.3.4 The financial holding company model

In the financial holding company model a holding company owns both an insurer and a bank, these company clusters are often referred to as financial conglomerates. Teunissen (2008) lists the full integration of operations and systems and the possibility of one-stop shopping for financial services as potential advantages of financial conglomerates. However even though the conglomerates offer both banking and insurance services sometimes even under the same brand name this does not necessarily mean that there is a lot of interaction and integration between the two.

In the shopassurance context a financial holding company could possibly be considered to be the furthest reaching form of expansion towards the provision of financial services by a retailer (Risso 2010). The British retail giant Tesco warrants attention when it comes to discussion on retailers evolving into financial holding companies that offer a comprehensive catalogue of financial services as well as traditional retailer services.

Tesco's expansion into financial services began in 1992 when it entered into a partnership with NatWest (since 2000, a part of the Royal Bank of Scotland Group) to

further develop and manage the Clubcard related financial services. In 1997 Tesco broke off the partnership with NatWest and went on to form Tesco Personal Finance, TPF, in partnership with the Royal Bank of Scotland, RBS. Tesco owned 50% and RBS 50% of TPF (Tesco 1998). In 2008 Tesco bought RBS out of TPF for £ 950 million (Skynews 2008). In 2009 TPF was rebranded as Tesco Bank.

While the expansion into banking services led Tesco to having a fully owned and licensed retail bank by 2009 the offering of insurance was also developed before and after the turn of the millennium. What started out as simple travel insurance has now led to a broad insurance offering that includes both non-life and life insurance products. In 2010 Tesco Bank set up Tesco Underwriting in partnership with Ageas, a British provider of insurance solutions. Tesco Underwriting currently underwrites the majority of Auto and Home insurance policies for Tesco Bank customers and provides them with claims management service. (Tesco Underwriting 2013)

Tesco has been developing and innovating retailer led financial services for over two decades. What started off as partnerships have developed into joint ventures that have later been wholly acquired by Tesco. Currently Tesco operates its own Bank that in turn has its own underwriting unit albeit it is still currently jointly owned. Tesco is currently perhaps the closest that any retailer has become to being a financial conglomerate outside the retail market.



FIGURE 6 Tesco Personal Finance / Banking & Insurance Center (VisMedia 2010)

2.4 A new channel for insurers

The creation of innovative channels to distribute products is a crucial part of any insurers' growth strategy and may also prove to be a competitive advantage as distribution can be seen as critical driver of new business. Shopassurance has been especially looked at as a new innovative distribution channel through which insurers could tap previously unreachable market segments.

2.4.1 Business as usual

Insurers have traditionally relied upon a variety of distribution channels in order to get into contact with their customer. Companies have used direct writing, intermediaries and bancassurance. Direct writing refers to insurance that is distributed by insurance companies without intermediaries. This channel is split into two subcategories that are employees (companies own sales force operating from branch networks) and distance selling, which includes call centers, the Internet, mailing. Intermediaries are agents, brokers and other intermediaries such as car sellers, estate agents, travel agencies etc. Bancassurance refers to the provision of insurance products by banks or lending institutions. The bank may act as an agent, broker or similar to the employee role in the direct writing channel context. (CEA Insurers of Europe, 2010)

Before the turn of the millennium the Internet channel was one of the most anticipated developments not just in financial services but also across almost every other line of business as well (Dumm & Hoyt, 2002). However the Internet revolution did not proceed as quick as had been expected. Banking services and the brokerage community seemed to be able to take advantage of the new channel much faster than insurers themselves (The National Underwriter, 2001). As more and more insurers are picking up the pace in their efforts to go online some companies are already looking at new possibilities and trying to find innovative ways with which to gain access to potential customers such as shopassurance.

2.4.2 Innovation in channels

According to a Deloitte (2010) report insurers should stop viewing channels as a cost center and rather treat them as a profit center that can be used to drive differentiation and growth. This includes changing the way that insurance companies approach channel innovation.

Reinsurer Gen Re (2010) suggests that insurers should view shopassurance as a novel distribution channel. This new channel has been put to use in both the developing and developed markets. In India Future Generali introduced mallassurance, where simple insurance products are being distributed via a partnership at Future group malls. In 2009 Future Generali India estimated that 25% of their life insurance policies were being sold through the mallassurance channel. Bharti AXA Life Insurance has partnered up with Airtel and Bharti Teletech, which are local mobile phone manufacturers and distributors, in an effort to capitalize on the high customer values in phone stores (Dharamsi, 2009).

Shopassurance is especially interesting from the channel perspective in markets where cost-effective distribution solutions are needed. These are for example rural areas where Internet connectivity is low and the financial services infrastructure is still in its infancy. The developments in the Indian insurance market give strength to this opinion, as several insurers operating in India are have already taken up shopassurance or are at least looking at shopassurance as a new revolutionary distribution channel (TNN 2006; Narasimhan 2008, Dharamsi 2009).

2.4.3 Shopassurance as a distribution form for microinsurance

Smith, Smit and Chamberlain, (2011) touched on the topic of shopassurance as a possible distribution innovation in relation to microinsurance. Microinsurance is aimed at protecting low-income people against specific risks in exchange for premium payments (Worldbank 2013). Smith et al. had gathered case evidence of novel microinsurance distribution arrangements from around the world and listed some typical characteristics. Amongst these characteristics, were scale through aggregation, presence of infrastructure footprint, transaction platform and trusted brand.

Scaling through aggregation is the ability to scale by targeting large client concentrations. These can be for example non-insurance related groups such as clients of retailers or cell phone companies. Presence of infrastructure footprint is evident when entering into alliances with organizations that have large client concentrations allows the insurer to gain an infrastructure footprint that is much larger than what could be achieved by acting in isolation. The infrastructure may be physical or virtual. Transaction platform refers to a situation when the sales channel typically doubles as a premium collection platform. The presence of a trusted brand has been observed to have a positive impact on the success of the distribution models. (Smith et al. 2011)

It is noteworthy that these characteristics that have been identified to exist in microinsurance distribution solutions are also present in shopassurance business models that are not only targeted at low-income people. It may therefore prove useful in the future for shopassurers to observe the developments in microinsurance distribution as applications that arise in that segment may also prove useful in developed markets.

2.5 Customer relationship management

Being customer oriented and putting customers at the center of your business has been common practice since the turn of the 21st century. Financial services organizations have also taken notice and have been implementing customer relationship management (CRM) for some while now (Peppard, 2002).

Relationship management is used to explain how organizations manage and improve relationships with their customers in order to achieve long-term profitability. While the meaning of the term CRM is contested, in this study it is understood to be concerned with using information technology (databases, mass customization technologies, etc.) to implement relationship-marketing strategies (Ryals & Payne, 2001). In essence one could say that CRM is about knowing one's customers and then acting on that knowledge to create profitable long-term customer relationships.

2.5.1 Financial service companies' CRM

Colgate & Alexander (1998) saw the shift of retailers towards financial services as a phenomenon that decreased the interaction that banks have with their customers. Interaction itself is a prerequisite for a relationship, which has to be mutually perceived and is formed when a series of these interactions occur between customer and company (Storbacka 1994; Barnes, 1997).

Financial institutions have traditionally been able to build strong relationships with their customers and they have been able to leverage these relationships into a profitable and stable business (Colgate & Alexander 1998). This may be partly due to the fact that financial service organizations hold large amounts of data on their customers and therefore are at an advantage to implement CRM activities (Ryals & Payne, 2001).

Customer portfolio management is especially important in financial services companies, as customer churn is a significant. Customer churn is in direct relation to a customer's lifetime value (CLV). A way to manage churn is to predict the customers that are most likely to churn and then to focus efforts on these customers instead of ones that are likely to stay anyway (Neslin, Gata, Kamakura, Lu & Mason 2006). In insurance however not all customers are worth fighting for. According to consulting firm McKinsey & Company (2004) the source of profits within a P&C insurer's customer portfolio vary greatly between customer segments and churn rates within these segments have drastically different effects on overall profit as is illustrated in figure 7.

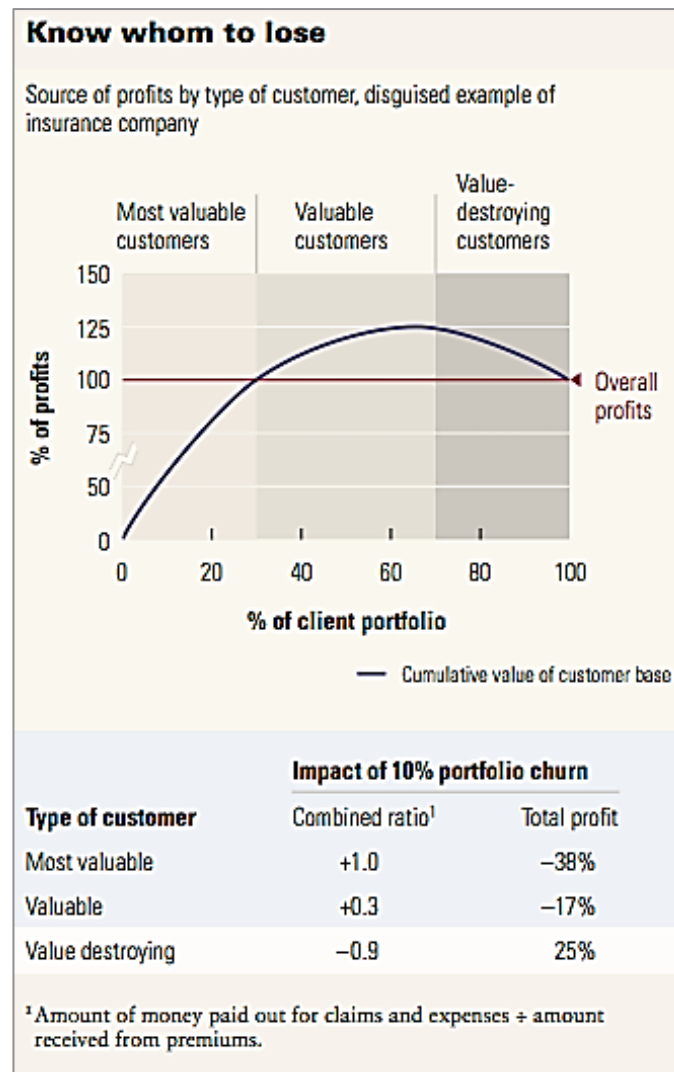


FIGURE 7 Sources of profits by customer type in an insurance company (McKinsey 2004)

CRM activities offer insurers a way with, which to further develop and manage their customer portfolios. Research has however shown that often CRM projects do not fulfill the expectations that have been set for them. This incongruence between expectations and results may partly be due to the fact that companies are not able to incorporate CRM into their overall customer strategies and organization structure (Langerak & Verhoef, 2003; Ryals, 2005). Ryals (2005) suggests that while CRM can contribute to customer loyalty and customer retention per se, the main focus should be on profitable customer retention and profitable customer portfolio management.

Verhoef and Bonkers (2001) have developed a model that can be used to predict customer potential value in the insurance industry. Their findings were encouraging from a CRM point of view as they were able to use existing data on customers to

effectively predict future profitability. These predictions could then be used to create customer specific strategies.

Insurers have traditionally been good at risk-centric analytics – assessing the probabilities and costs of risk exposures. Models for product design, pricing, underwriting are at the core of insurers analytics activities. However with the growing amounts of data available to insurers from various sources the focus is shifting to customer-centric analytics. This entails a deeper and more granular understanding of customer needs and wants. Creating customer insight and turning it into actionable strategies will be a driving force of CRM activities in the future. (Strategy Meets Action, 2012)

2.5.2 Retailers' CRM

Retailers have been collecting data on their customers mainly by introducing loyalty cards. Various loyalty schemes have become such important sources of customer data that continuous use is often encourage by offering various rewards (Mauri, 2003). While there has been active discussion on whether or not loyalty cards actually can induce loyalty within a customer base, there is no denying the fact that they facilitate data gathering (Dowling & Uncles 1997; Hart, Smith, Sparks & Tzokas 1999).

By entering customers into loyalty programs and gathering demographic data and continuous purchase data retailers are better armed to pursue targeted marketing campaigns and personalized marketing communications. Mauri (2003) has conducted a case study on Tesco's Clubcard loyalty scheme. In her study Mauri found that Tesco's loyalty scheme is built on a network of partnerships that extend the reach of the scheme and also increase customer interest in it. Tesco has also enables customers to build their own interrelated relationships with each other through Tesco's brand web. The Clubcard loyalty scheme has also managed to blend the traditional brick and mortar retailing with click retailing. The Clubcard has noticeable e-presence and also offers customers access to specific free online clubs that include information, advice and peer support on matters such as babies, healthy living and wine. Through all the different added aspects Tesco is able to gather more and more in-depth knowledge on its customers and has continued to innovate on it.

One example of retailer's ability to put one and one together by gathering customer data was reported by Duhigg (2012). Target, a US based retailer, decided to use its customer data to identify future parents to be by comparing markers in their purchase history that suggested that they were pregnant. This then gave Target the opportunity to send out advertising and promotions on baby products and the likes to future parents to be. An example from Minneapolis recalls an incident when an angry father visited his local Target store with a coupon for baby clothes and cribs. The coupon was mailed to his high-school aged daughter. Target apologized and then called after a few days to apologize again, this time though the father revealed that he had been talking to his daughter and found out that she was actually due in August. Clearly retailers have a lot of data about their customers and they are getting better and better in finding ways on how to use it.

2.6 Brand extension

Brand extension refers to the use of an established brand to launch new products or services. These new products may extend brands within and beyond the original product category. The underlying logic is that brand extensions are usually profitable because customers are already familiar with the brand and therefore less marketing expenses will be incurred while introducing the new product. (Völckner & Sattler 2006)

The success of brand extensions is however uncertain. Aaker and Keller's (1990) early work on brand extensions sought to explain the success of brand extensions based on the similarity or fit of the extension to the original product. Bottomley and Holden (2001) have identified three main generalizations on the main drivers of success in brand extension activities:

1. Consumers' evaluations of brand extensions are mainly affected by the quality of the parent brand and the fit between the original and extension categories. Transferability and complementarity seem to be more important than substitutability in predicting brand extension success.

2. Consumers' evaluations are less dependent on interactions of the quality of the parent brand with the complementarity and transferability of assets and skills between the original and extension category and the perceived difficulty of making the extension.
3. Cultural differences do not change the main effects of the contributions of quality and fit to brand extensions but they influence the relative importance of these factors.

Beyond these three drivers Völckner and Sattler (2006) have identified 15 determinants that have proven to be significantly relevant to the success of brand extensions.

2.6.1 Bank brands in insurance

Bancassurance, the selling of insurance products via the banks existing channels has become a model that is being practiced around the world. When banks are being used as a distribution channel more often the insurance products that are being sold are offered under the brand of the insurance company that is also responsible for the underwriting. However this has started to change as the financial services industry has become increasingly centralized and financial one-stop-shops or conglomerates have been formed around the world. These conglomerates often operate both banking and insurance activities under same or similar brands. Such is the case with ING, a global financial institution of Dutch origin, which is active in retail banking, commercial banking, insurance and investment management. (Teunissen 2008)

When retailers enter into new business markets, for example the financial services market they usually seek to leverage their strong brands (Burt 2000). For banks and financial conglomerates the question of branding is more complex. The main motivation for banks and insurers to enter into partnerships has usually been the perceived cross-selling benefits and business is continued under both brands respectively (Johnston & Madura 2000). Financial conglomerates however often oversee a portfolio of various lines of business that have been traditionally conducted under different brand names. Traditionally financial services companies have not been

active in branding their services (de Chernatony & Cottam 2006) but have instead invested heavily in building their corporate brands (McDonald 2010).

Devlin and McKechnie's (2008) study of brand architectures in financial services found that the corporate brand had a predominant role in financial services markets. A perhaps surprising finding was that consumers were relatively insensitive to the competency aspect of brands in financial services. Practitioners often maintain that the rationale for having a multi-brand architecture is to signal the attributes of a distinctive competence to the market place. However consumers did not consider this to be important. Participants in the study had difficulty in identifying particular skills or specialties that were associated with certain types of financial services. Rather there was a notion of basic skills that were taken for granted such as the ability to keep accurate data and providing good customer service. Generic competencies such as accurate processing in banking transactions or insurance claims were seen as universal to the financial services industry. Brands themselves did not appear to be significantly important in signaling specialized competencies in the vast majority of cases.

Currently there exist several global financial conglomerates that offer both banking and insurance services under a corporate brand such as ING, The Travelers Companies and RBS. In Finland financial conglomerates that offer insurance and banking services have also been formed and currently OP-Pohjola is the market leader in the Finnish personal P&C market (Finanssialan keskusliitto 2012a). Banks have also been selling bank branded insurance products in Finland, as was the case with Nordea bank and Tryg insurance. Nordea distributed Tryg underwritten insurance under the brand name of Nordea P&C insurance. Later Nordea P&C insurance was rebranded and sold under the Tryg brand via Nordea's bank channels. Tryg sold its Finnish P&C business to If P&C Insurance Company in the end of 2012.

2.6.2 Retailer brands in financial services

Retailers' store brands are becoming increasingly important. These so called private label products started out as being low cost alternatives to major brands. The value propositions were usually in line with the philosophy of the same for less. However

retailers started to implement differentiation and repositioning strategies in order to promote their store brands across a wider range of product categories. The term private label has to some extent been replaced by the term store brands with the introduction of higher premium product categories. (Laforet 2007)

As the retail market space is becoming ever more contested retailers with strong brands have been eyeing the financial services market for some time now (Pollard 2000; Colgate & Alexander, 2002). Burt's (2000) studies of brand extension activities in the British retailer markets revealed that store brands have become serious competitors for traditional retail brands and that retailer's brand extensions have led to competition in various product categories.

Bottomley and Holden (2001) concluded that one of the key aspects of brand extension success is the perceived fit between the original and extension category. A company's perceived expertise from the consumer side has also been suggested to influence the success of brand extensions. That is whether or not consumers believe that a company can deliver products that satisfy their needs (Keller & Aaker 1992). DelVecchio (2001) predicted that store brands would be successful in categories that are not complex and where there is relatively little variance in quality across competing brands.

Retailers in the British market have been highly successful in promoting a quality brand image towards consumers. They have been able to generate high levels of confidence amongst consumers in various product and service categories and they have been able to translate this into increased market share for store brands. While banking services are increasingly being offered through electronic channels and less through traditional physical locations the physical links between banks and customers is becoming weaker and brands are becoming more important. (Alexander & Pollard 2000)

Laforet (2008) found that previous knowledge of the parent brand led to the transfer of trust to the extended product on the consumer's side. Customers that were already loyal to the retailer were likely to accept and try products and services within the brand extension categories. Another key finding was that the stronger the retailers

brand the higher the chance of consumer brand acceptance. The size of the retailer may also be a factor in brand extension acceptance. Larger and more powerful firms seem to be more trusted by consumers in brand extension categories.

2.6.3 Product augmentation

Even though a lot of focus has been given to the brand extension perspective on retailer entry into the financial service market space the concept of product augmentation still warrants a brief overview in order to gain a broader understanding of the shopassurance phenomenon. Kotler (1972; 424) defined the augmented product, or extended product as the tangible product along with the cluster of accompanying services. Other definitions such as Shostack's (1977), essentially distinguishes between a core product or service that in essence defines the business in which the company is competing in and the supplementary services that surround it. Grönroos (1990) develops the concept of supplementary services further by dividing them in to two groups, supporting and facilitating services. Supporting services add value to the core offering and differentiate the offering from the competitors while facilitating services facilitate the delivery and consumption of the core offering.

Colgate & Alexander (2002 b) noted that the development of financial services by retailers might have two fundamental objectives. Financial services may be offered in order to support core operational activities and to develop closer relationships with customers. Loyalty cards that offer the possibility of store credit are prime examples of supporting services. Cards are used to gather information of customer purchasing habits and other data for CRM activities while the line of credit facilitates larger purchases at the select retailer. Loyalty cards that are similar to the one just described but with the addition of credit/debit features that enable the user to pay with the card also beyond the issuing retailers locations can be seen as a diversification into non-core areas.

In Finland Stockmann offered its loyalty card customers the possibility to make in store credit purchases at Stockmann department stores. In 2008 Stockmann renewed its loyalty card scheme and entered into a partnership with Nordea, a Swedish based bank, and started offering loyalty cards with the option a of MasterCard credit/debit

card integration. In 2007 Stockmann had 660 000 loyalty cards with the credit account function (Stockmann 2007). By entering into a partnership with Nordea, Stockmann extended its financial services from supporting to facilitating services in accordance with Grönroos' (1990) definition.



FIGURE 8 Stockmann Loyalty customer card with embedded MasterCard (MeritonHotels 2013)

From a shopassurance perspective the insurance product offering by Tesco can be seen as an example of product augmentation by means of offering facilitating services. The insurance that Tesco provides is not linked only to products that have been purchased from Tesco. However there are also examples of insurance offerings by retailers that can be classified into facilitating services. For instance, when purchasing home electronics the retailer may offer additional coverage for the customer. In Finland, Norwegian based home electronics retailer Gigantti offers its Happy care product insurance as an additional service. The All Risk type coverage covers only the product that has been purchased at the retailer and the coverage must be taken at the time of purchase. Moderna Försäkringar, a Swedish insurance company, underwrites the policy (Happycare 2013).

3 THE BUSINESS MODEL

Since the middle of the 1990's the business model has developed into one of the great business buzzwords of our time. During the Internet boom Web-based businesses were sold to investors by telling compelling stories filled with hypotheses on potential customers and future revenues all built into a nicely package business model (Magretta 2002). However as Zott et al. (2010) point out, the concept of the business model did not crash and burn with the industry that helped shape it. During 15 years since 1995 there have been 1 177 papers published in peer-reviewed journals on the topic of business models. Despite, or because of, this plethora of literature the term itself is often ill defined and without a concise definition (Osterwalder, Pigneur and Tucci 2005). In order to avoid the pitfall of taking an ambiguous terms meaning for granted, this part of the thesis will focus on defining the concept of the business model and its parts as they are relevant to this study.

3.1 Business model as a concept

The online version of the Concise Oxford English Dictionary (2012) does not provide a definition for the term business model. However for the two distinct words, which make up the term the following definitions can be found:

- “*Model*: a three-dimensional representation of a person or thing, typically on a smaller scale, (in sculpture) a figure in clay or wax, to be reproduced in a more durable material.”
- “*Business*: a person's regular occupation or trade, work to be done or matters to be attended to.”

Because no clear definition of the term can be found in the English language, it is necessary to review the definitions that are currently being used in literature to either find a suitable definition that can be used in this study.

Several definitions of the concept of the business model can be found in literature. Amit and Zott (2001, 511) have defined the business model as: “the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities”. Casadesus-Masanell and Ricart (2010, 204) state that a business model is in fact a “reflection of the firm realized strategy”. According to Johnson, Christensen and Kagerman (2008, 3): “a business model consists of four interlocking elements that taken together, create and deliver value”, highlighting the fact that the business model is a construct of several different parts that together form a coherent structure.

Zott et al. (2010) have collected several definitions of the business model and found that on a general level business models have been referred to as statements, descriptions, representations, architectures, models, structural templates, methods, frameworks and patterns. When the so-called business model of an industry or the general way of doing business is taken into consideration then a more suitable term is the dominant logic, which is defined by Prahalad and Bettis (1986) as the types of mental maps that have been developed through experience in the core business. Naturally the dominant logic of an industry will be present in the business models of industry incumbents.

Despite the various definitions of the business model in different contexts some universal attributes can be recognized. According to Zott et al. (2010) the business model can be considered a new unit of analysis, as that it is not merely a new term for something that has previously been researched. Depending on the researchers view it may be closer to the firm or business network or somewhere in between. Several researchers have adopted a more holistic and systemic view focusing on not only what businesses do but also on the actionable side of how they do it. The business model perspective includes multiple elements. In most studies these elements of organizational activities are present either implicitly or explicitly.

Osterwalder and Pigneur (2010, 14) define the business model as a concept that: “describes the rationale of how an organization creates, delivers, and captures value”. This definition takes into account many of the notions presented by Zott et al. (2010) and also the holistic view of the business model concept. In this thesis the business

model is understood to be a concept that is in line with Osterwalder and Pigneur's (2010) definition.

3.1.1 Business model research

According to Teece (2010) when a business is established it always employs a particular business model that describes the design of the value creation, delivery and capture mechanisms that are being used. The business model has received a lot of attention in research as well as in the practicing world. Several books aimed at business practitioners have been published with the attempt to bring even more attention to the business model viewpoint and its applications in the real world (see. e.g. Kaplan 2011; Osterwalder & Pigneur 2010; Johnson 2010).

Business model research is currently being conducted in silos according to the area of interest of the researchers (Zott, Amit & Massa 2011). E-business and the use of technology in organizations and its effects on the business model was one of the first phenomena where researchers chose the business model as the unit of analysis (see e.g. Timmers 1998; Rappa 2001; Dubosson-Torbay, Osterwalder & Pigneur 2002). Strategic issues and how they are reflected in business models is another major area of business model research (see Amit & Zott 2001; Christensen 2001; Teece 2007, 2010). Finally innovation and technology management has served as a perspective into business model research. (see Chesbrough 2003; Johnson & Suskewicz 2009).

As already stated a lot of the research on business models has previously focused on what the business model is and what different elements constitute a business model. However despite the conceptual differences according to Zott et al. (2011) some common denominators can be found. It is largely accepted that the business model is a new unit of analysis that is different from the firm, industry, network or product. While the business model is centered on the firm its boundaries are perceived to be wider. Business models take a system-level approach to explaining how companies conduct business. The business model perspective focuses on both the value creation and value capture activities of accompany. Taking this into account the business model is a suitable unit of analysis with which a broader understanding of the shopassurance phenomenon can be gained.

3.1.2 Business models & strategy

Business models and strategy are closely linked and sometimes overlapping concepts but they are not the same thing. Osterwalder (2005) as well as Casadesus-Masanell and Ricart (2010) see the relationship between the business model and strategy as a reflection or translation of the company's strategy into the logic of how it earns money. This is however a very general statement and the relationship between the two commonly used business terms reward further attention in order to clarify the differences between the two.

Michael Porter is arguably one of the global thought leaders on strategy. According to Porter (1996,2001) strategy is essentially about defining a company's long-term position in the market and making decisions on what the company will do in order to provide value to customers while creating a combination of activities and processes that are hard to copy and that will eventually secure a superior return on investments. One could certainly make the argument that the answers to these questions are similar to the ones related to business models in the how a company creates, delivers and captures value aspects.

Seddon and Lewis (2003) argue that framing the discussion on the possible overlap between the concepts of business models and strategy (figure 9) is not helpful. This is because these concepts are substantially the same but with different nuances.

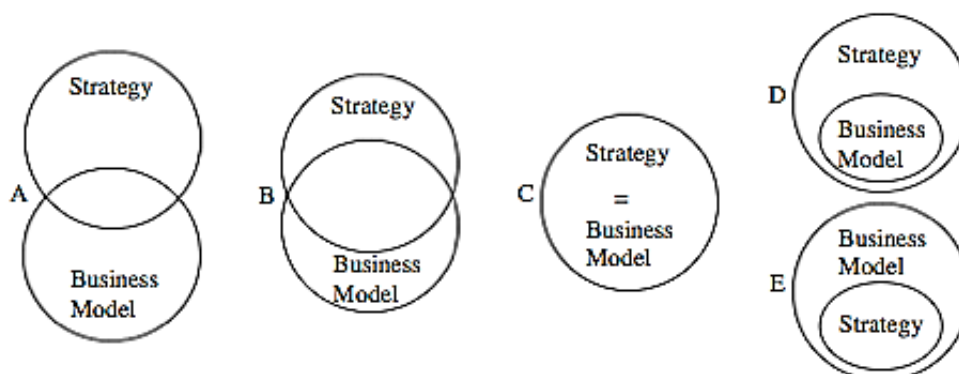


FIGURE 9 Possible overlap between the concepts "strategy" and "business models" (Seddon & Lewis 2003, 237)

Seddon and Lewis (2003) state that accepting the business model as being simply another side of the strategy coin is not right. Experts have been using the term business model from a viewpoint that is different from strategy. Seddon and Lewis suggest that the difference between business models and strategy lies on the level of abstraction. Figure 10 is a visual representation of this and it can be understood as a view where business models are an abstract representation of some aspect of a company's strategy.

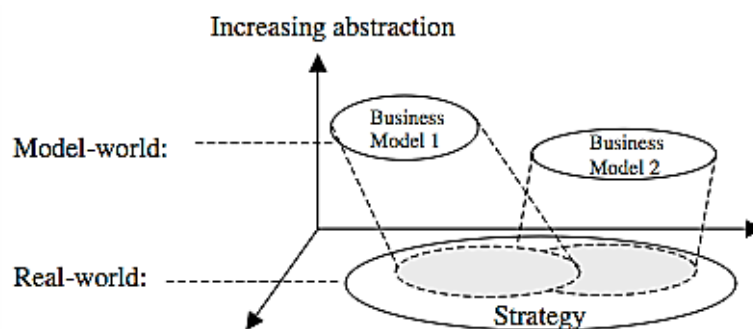


FIGURE 10 The relationship between the concepts "business model" and "strategy" (Seddon & Lewis 2003, 238)

Seddon and Lewis (2003) emphasize that a company's strategy must be understood as always being anchored into its own competitive environment. Therefore a strategy is always specific to a company and that company alone. However a business model can be viewed as an abstraction of that strategy and therefore a business model can apply to more than just one company. This entails that a company's strategy can be represented by any number of business models (see figure 10).

Magretta (2002) describes the main difference between business models and strategy as to how they describe competition. The business model describes on a system level how the different pieces of a business fit together but not how the company will deal with competitors. Magretta sees this as being the strategy's job. He describes the differences with an example on Dell an American pc-manufacturer that revolutionized the pc business in the 90's by selling straight to the end-user without traditional distributors. Dell's innovative business model became the standard in the industry where everyone sold directly to the end-user. Dell then chose to use the same business model and expand into new markets such as servers. The business model remained the same but the strategic choices on customer segments and markets changed. Magretta

admits that drawing sharp boundaries around abstract terms will involve arbitrary choices but insists that it is necessary because of the significance of the matter.

Casadesus-Masanell and Ricart (2011) provide an interesting analogy on the relationship of business models, strategy and tactics. According to them a business model can be viewed as an automobile. Different cars function differently; a hybrid is positioned to offer a different value proposition to drivers when compared to an SUV. The way that the car is built imposes constraints on what the driver can or cannot do. It therefore places constraints on the available tactics. When driving a compact hybrid the driver cannot opt to take a short cut through a rough country back road. However if you could modify the hybrid to have off-roading capabilities such changes would not be tactical but strategic. This is due to the fact that the changes entail changing the actual machine. Therefore the strategy is the design and design process of the vehicle, the business model is the vehicle itself and tactics is how you drive the vehicle.

There is a growing view that in order for business to stay competitive in tomorrow's fast paced markets they need to start innovating not only at a product, or function level, but rather on a business model level (Magretta 2002; Johnson, Christensen & Kagermann 2008; Chesbrough 2010). The way a company shapes its competitive strategy will ultimately have effects on the business model as Casadesus-Masanell and Ricart (2011) point out but also the existing business model will provide the frame for the choices with which the company can choose to compete. Making a clear distinction between strategy and business models is hard and there are a lot of opinions on how exactly to differentiate the two. However all researchers that have addressed the subject agree that the two terms are not directly interchangeable.

3.2 Business model elements

Since the business model can be understood as a description of how a company creates, delivers and captures value it therefore must include elements that describe these functions and what infrastructure is needed (Osterwalder & Pigneur 2010). As there are many different definitions of the business model it is only natural that there are various views on what elements constitute a business model. Morris, Schindehutte

and Allen (2005, 728) compiled a list of 18 different perspectives on the components of business models.

Shafer, Smith and Linder (2005) discussed the various components of the business model that had been presented in journals and used an affinity diagram to categorize the components that were cited more than once. This revealed four main categories that were: strategic choices, creating value, capturing value and the value network (see figure 11). These business model component categories and the underlying terms are similar to the ones that Zott et al. (2011) proposed.

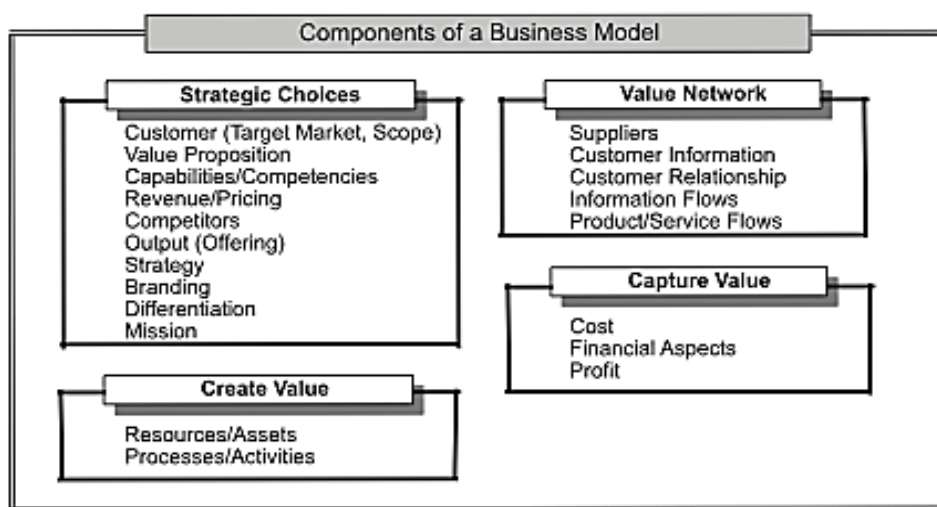


FIGURE 11 Components of business model affinity diagram (Shafer et al. 2005, 202)

Zott et al. (2011) list 9 different views on components of e-Business Models. Since there is currently no unified perspective on the elements of a business model and to discuss the differences between the perspectives is beyond the aim of this thesis a single perspective must be chosen. The summary of literature on business models in e-business (Zott et al. 2011, 10) provides clues to the most common parts of the business model. The following notions are commonly included as being parts of a business model:

- The notion of value (value stream, customer value, value proposition)
- Financial aspects (revenue streams, cost structures)
- Aspects related to the architecture of the network between the company and its exchange partners (delivery channels, network relationships, logistical streams, infrastructure)

Osterwalder's (2004) Business model ontology consists of 4 main components, which can be further broken down into nine smaller elements. The business model ontology has received a lot of attention since its publication. It is an ambitious attempt to provide a detailed and concise definition of the various business model elements. Because it offers a generally accepted definition of the elements of a business model it has been chosen as the framework for this thesis (see figure 13). It has also been adapted to an actionable tool called the business model canvas that will be discussed further in the section of business model as a representation (Osterwalder & Pigneur 2010).

Next the nine business model elements will be presented to the reader in the following four chapters in the order that they appear in figure 13 starting from the product and customer interface and then moving on to the infrastructure that makes the business model possible and finally ending in the financial aspects.

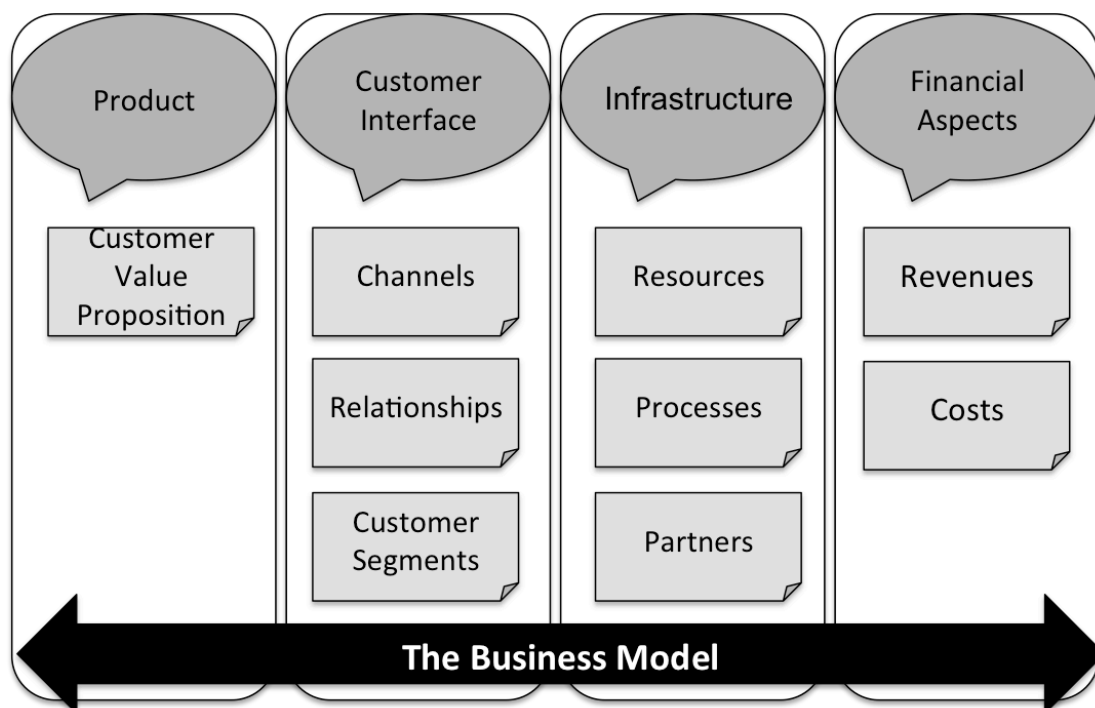


FIGURE 12 The business model components (Osterwalder 2004, adapted)

3.2.1 Product

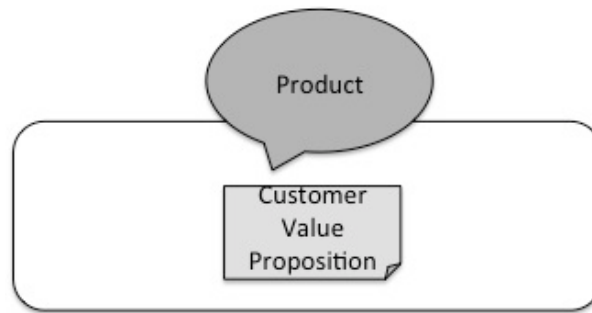


FIGURE 13 Business Model Product component (Osterwalder 2004)

The notion of value is a crucial element to any business. Value in a business model context is completely different from the value chain concept. Porter's (1985) value chain framework describes value creation at a company level. In the value chain concept the aim is to identify the various activities that have an impact on the company's value creation. In a business model context the value proposition identifies how the company will fulfill the customer's needs.

Osterwalder (2004) defines the product to consist of the value proposition to the customer. The value proposition covers all the aspects of what a company offers to its customers. Bagchi and Tulske (2000) see the value proposition as a statement of the benefits a company offers to its external constituents. As with the business model itself there are several different definitions of a value proposition. Chesbrough (2002) sees the value as something that is created via an offering based on technology. Amit and Zott (2001) list efficiency, novelty, complementarities and lock-in as sources of customer value in the e-business context.

All various definitions of the value proposition have in common the implicit assumption that the value proposition is the base of company's value creation activities. Because the customer ultimately defines the value of a product or services, a company cannot offer value as such but merely a proposition on value that the customer will then evaluate. In the business model perspective the focus should not be on the offering itself but rather the value proposition that is attached to that offering.

Another perspective on the value proposition is provided by Christensen & Raynor (2003) who argue that companies should address the various jobs-to-be-done that

individuals face and focus on these jobs instead of selling products or services. A simplification of the jobs-to-be-done framework could be an insurance company that instead of selling policies would focus on mitigating the financial loss that customers face when confronted with risk. In this situation the insurance policy includes the value proposition of mitigating financial loss.

3.2.2 Customer Interface

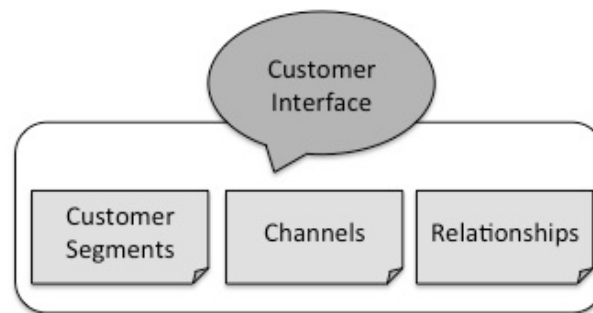


FIGURE 14 Business model customer interface component (Osterwalder 2004)

The customer interface describes the parts of the business model that explain how a firm goes to market, how it reaches its customers and how it chooses to interact with them. This involves making choices related to the target customers of a company, the distribution channels that will be used and the relationship between the company and its customers. (Osterwalder 2004)

Customer Segments are the groups of customers that a company chooses to focus its activities on. In order for any business to be successful it needs to have profitable customers. As such it is only natural that the customer element is present in the Business model. However in a market filled with customers that have varying needs a company must identify the ones that it wishes to serve in order to maximize profitability (Claycamp & Massy 1968). Market segmentation aims to fulfill this job. Keller, Brady, Goodman and Hansen (2009) define a market segment simply as the type of market or customers that the company will serve.

There are many different ways of how customers can be segmented into more manageable units. Since Smith (1956) first introduced market segmentation it has become an inseparable part of marketing both in theory as well as in practice. Smith indicated that by nature heterogeneous markets are made up of smaller homogenous

markets. Market segmentation is then a way of viewing these heterogeneous markets as a number of smaller homogeneous markets. These smaller markets are characterized by different consumer preferences. It is also necessary to remember that market segments originate from manager conceptualizations of partitioned markets, not from empirical partitioning of the market on the basis of collected data (Wedel 2000). Therefore market segments as defined by managers are merely hypotheses; they do not need to be physical entities that occur in the marketplace as in demographic or gender segmentation. Dickenson and Gintner (1987) refined the way in which segmentation should be carried out by stressing that markets should be segmented in terms of customer demand. This view of customer oriented segmenting is also used as a base in the Business Model Canvas.

Segmentation must therefore be conducted based on needs not on demographical factors (Kotler et al. 2009, 356; Osterwalder & Pigneur 2010). According to Kotler et al. (2009, 357) In order for segmentation to be effective it needs to be measurable, substantial, accessible, differentiable and actionable. By successful market segmentation a company can focus resources on customers that are expected to be most attracted to the company's value proposition.

The channels element describes the connections between the organization and its customer segments (Osterwalder & Pigneur 2010, 27). The channel element is the part of the business model that explains how a company gets in touch with its customers.

According to Kottler et al. (2009, 618) today's multifaceted markets are creating pressures for companies to create ever more sophisticated and complicated distribution channels comprising of several parts. Osterwalder and Pigneur (2010) describe the channel element to be made up of various parts that in structure is similar to Moriarty and Moran's (1990) hybrid marketing system. The distribution channels that make up the business model ontology's channel element range from direct-to-customer, to intermediaries. The distribution channels may be categorized on a general level into proprietary and partner channels and then into subcategories with direct and indirect channels.

A go to market strategy must take into account the customer's entire buying cycle (CBC) (Osterwalder 2004, 66; Osterwalder & Pigneur 2010, 27). The CBC spans through different phases as depicted in figure 14. The CBC is based on the Customer Resource Cycle by Ives and Learmoth (1984) and it should reflect all of the possible contact points between the company and the customer (Muther 2002). A business model may utilize just one channel such as a website to complete all tasks, or it may utilize a multi-channel strategy with different marketing channels and methods for different tasks. An insurer may choose to use brokers as a selling channel but then conduct claims handling in a proprietary call center.

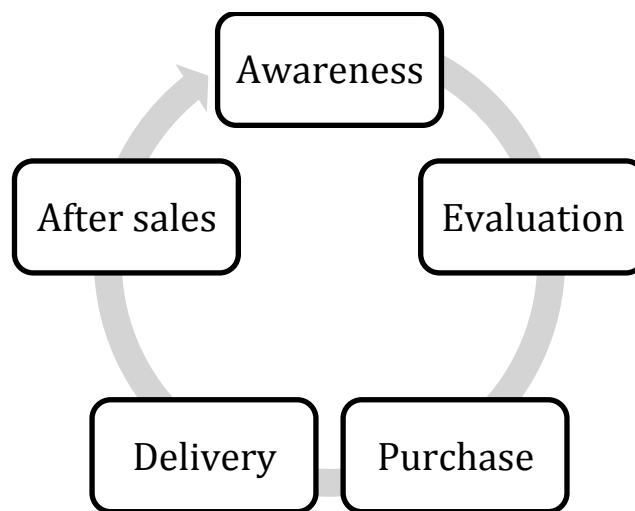


FIGURE 15 The customer buying cycle (Muther 2002; see also Osterwalder 2004, 66)

The relationship element in the business model describes what kind of relationship the company establishes with its customer (Osterwalder & Pigneur 2010, 28). Grant and Schlesinger (1995) state that achieving full profit potential from each customer relationship should be the prime task of every company. By simplifying one can say that customer profits can be increased by, acquiring new customers, enhancing the profitability of existing customers and extending the duration of customer relationships. The customer relationship building block is based on the concept of customer equity.

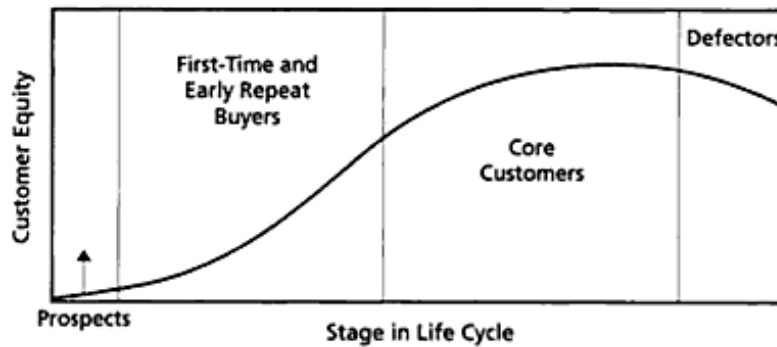


FIGURE 16 The customer Life Cycle (Blattberg et al. 2001)

According to Blattberg, Getz and Thomas (2001) in order for a company to be successful it must maximize customer equity. They define customer equity as the total marketing system that incorporates elements such as customer retention marketing and customer lifetime value measurement (see Jain and Siddhartha 2002). As such it is more than just a method for calculating the asset value of customer relationships and it requires integrative strategies that simultaneously manages both products and customers throughout the customer life cycle (see figure 15).

One of the main effects of customer equity management is that it changes the way resources are distributed. Instead of allocating resources by product lines, the customer-centered view of customer equity management allocates resources as determined by the customer life cycle. Relationship mechanisms are used to optimize the elements of customer equity throughout the customer life cycle.

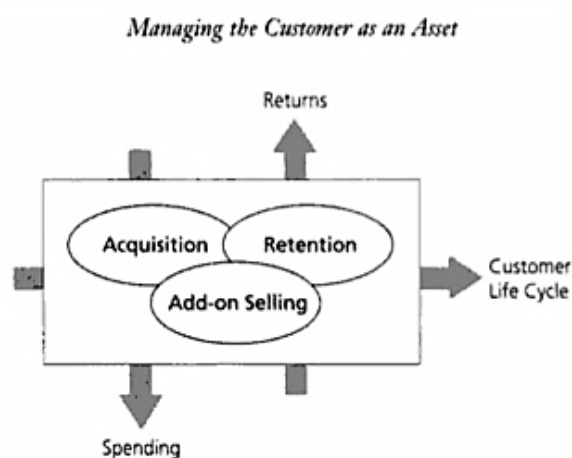


FIGURE 17 The customer equity model (Blattberg et al. 2001, 11)

The customer equity model (see figure 16) of Blattberg et al. (2001) summarizes the main activities that are crucial when managing the customer as an asset. Acquisition, retention and add-on or cross selling are the basic activities of many personal insurers when competing in highly competitive markets with notable customer churn.

3.2.3 Infrastructure

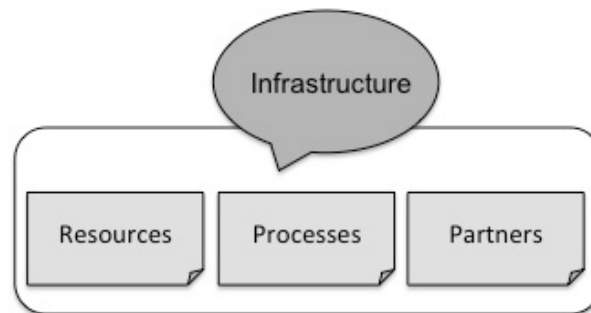


FIGURE 18 Business model infrastructure component (Osterwalder 2004)

The infrastructure element consists of all the various components of how a company creates value (Osterwalder 2004, 79). Osterwalder has divided the infrastructure component to resources, processes and to the partner network. This is in line with the view of Johnson et al. (2008) where key resources and key processes are also seen as elements of a successful business model.

Key Resources are what a company needs in order for it to be able to deliver the customer value proposition profitably (Johnson and Christensen 2008, 5). Resources are therefore essential to value creation. The resource-based view of the firm was first introduced by Wernerfelt (1984). He defined a resource as anything, which could be seen as a strength or weakness of a company. Grant (1991) noted that few resources are productive on their own but rather need the co-operation and coordination of teams of resources. Resources can be divided into tangible and intangible resources. Osterwalder (2004) includes human resources as a separate category from Grant's (1991) taxonomy. Resources do not need to be proprietary to a company. Prahalad and Krishnan (2008) argue that in order for a company to create value resources do not need to be owned by companies but rather that access to resources will prove to be crucial in the future.

For P&C insurers key resources might constitute offices, places of business, servers to house the massive amounts of information that is essential to the business and of course the employees. In addition to these tangible resources the greatest intangible resource might be underwriting software, which is the backbone of every modern insurance company.

Key Activities are essential to a company so that it is able to offer its value proposition to its customers. Johnson and Christensen (2008) identified key processes as an element of a successful business model. While individual resources or bundles of resources are crucial to value creation it is often the relationship between various processes and resources that make the difference. According to Osterwalder & Pigneur (2010) key activities are the most important things a company needs to do in order to make its business model function properly.

Bagchi & Tulske (2000) defined capabilities as the ability of a firm to perform a function that is described not in terms of the method of operation but rather in terms of the outcome. They also highlight the fact that many capabilities will be interlinked to one another. For example the capability to create customer insight aids the capability to design better products. For a P&C insurer an example of a capability is the capability to collect and analyze massive amounts of data. From a business model perspective a key activity would then be the continuous collection and analyzing of data in order to support underwriting procedures.

Key Partnerships describe the network of suppliers and partners that are an integral part of a firm's business model. Johnson and Christensen (2008) classified partnerships and alliances as a subcategory of key resources. As a lot of the research on business models has been conducted with an interest on e-business models it is understandable why so many models list network aspects as a separate component of the business model (see e.g. Mahadevan, 2000; Osterwalder 2004; Bonaccorsi, Giannangeli & Rossi, 2006; Brousseau & Parnard 2007).

Osterwalder (2004) defines the function of the partnership element in a business model to outline, which activities and resources are distributed among the firm's partners. A P&C insurer may have chosen to outsource its call-center customer

channel to a third party provider. The various types of partnerships may be classified into different groups such as co-operation, co-opetition and strategic alliances (Osterwalder & Pigneur 2010).

3.2.4 Financial aspects

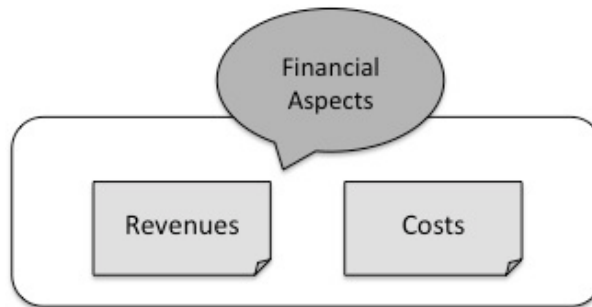


FIGURE 19 Business model financial aspects component (Osterwalder 2004)

According to Osterwalder (2004) a business model should also describe how a company captures value, with this definition it is necessary to look at the financial side of the business models as well. Shafer, Smith and Linder (2005) found that this view of the value capture component of a business model has been present in several research articles. In order for a company to succeed it not only needs to deliver an appealing value proposition but also it needs to do so in a financially sustainable way.

Johnson et al. (2008) identify this to be the profit formula. The profit formula is the blueprint that defines how a company creates value for itself while at the same time providing value to the customer as well. Alt and Zimmerman (2001) defined the bottom-line as a business model component that is comprised of revenues deducted by costs this is similar to Osterwalder's view (2004). The financial aspects of the business model will be discussed from the basis of this dichotomy.

Revenues in a business model context describe the main sources of money flowing into the company. A business model can comprise of several different revenue streams that together form the revenue model of a business (Osterwalder & Pigneur 2002). In P&C insurance the revenue streams include premium payments as well as profits made on investments. Different revenue streams may have different pricing models. According to Johnson et al. (2008) the revenues of a company are comprised of its revenue model that is price time volume, its margin model, which is the

contribution to profits of each transaction and resource velocity, which is the turnover rate of inventory and other assets.

Costs in the business model include all the costs that a company incurs while it creates and delivers value to its customer (Osterwalder 2004). Johnson et al. (2008) argue that the cost structure will mainly be driven by the costs of key resources that the business model requires. Osterwalder and Pigneur (2002) suggest that when companies focus on core competencies and activities and rely on partner networks for non-core parts of the business model there exists potential for cost savings.

Osterwalder (2010, 41) classifies between two different business models based on broad cost structure classes: cost-driven and value-driven. The cost-driven business model focuses on minimizing costs wherever possible, the goal is to create and deliver a value proposition based on low prices. The value-driven business model focuses more on value creation and is less concerned with cost implications. This is not to say that a business model with a low cost structure cannot deliver high value customer propositions to the market.

3.3 The Business model canvas

Osterwalder and Pigneur (2010) have further developed Osterwalder's (2004) business model ontology into what they call the business model canvas. The canvas is based on the nine building blocks: the value proposition, customer segments, channels, customer relationships, key activities, key processes, key partners, costs and revenues. After dividing the business model concept into these nine basic elements a visualization of the business model, the business model canvas (Figure 17), can be introduced.

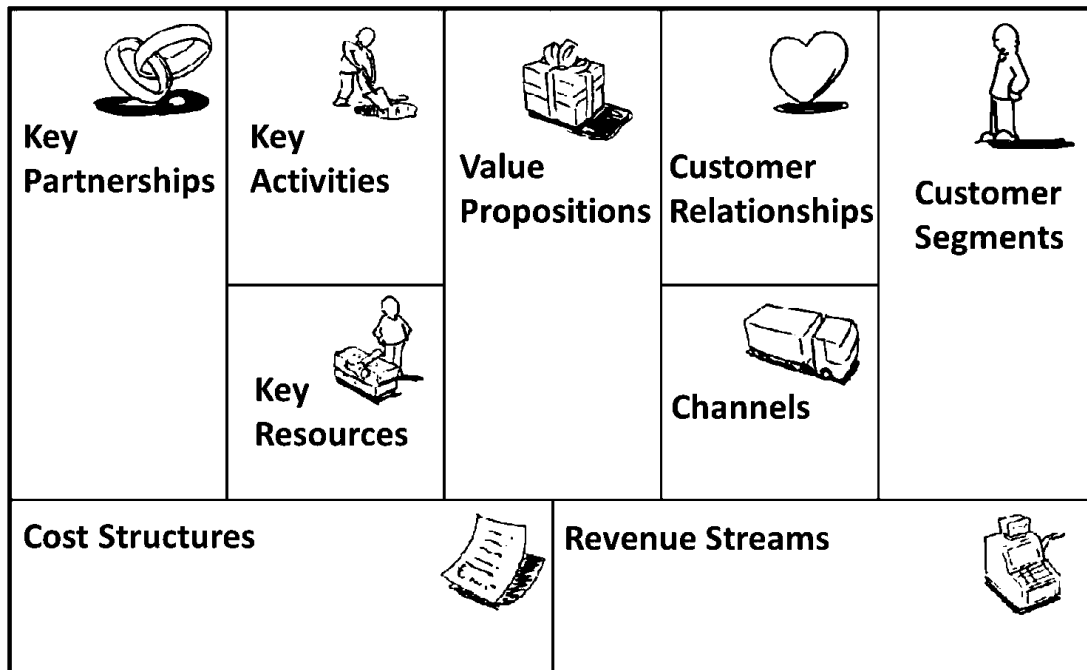


FIGURE 20 The Business model canvas (Osterwalder & Pigneur 2010, 18-19)

As already discussed earlier the concept and definition of the business model have sparked varying views and opinions on what the business model is and what are the parts that constitute a business model. After the concept and the parts of the business model have been covered there still remains the challenge of presenting the information in a clear and effective way. The Business model canvas (Osterwalder and Pigneur 2010) gives the user a tool with, which to map out the critical components of a business model. The canvas can then be used as a base for discussion or further prototyping. Chesbrough (2010) notes that by constructing maps of business models the underlying processes can be clarified. Mapping as such is a useful way to explicate business models.

By creating graphical representations conceptualizations can be created and visualized (Gordijn & Akkermans 2003). Visualization provides a way with which complex systems, such as a business model, can be handled successfully (Rode 2000). According to Osterwalder et al. (2005) business models are becoming increasingly complex and the relationships between the different elements are not always immediately clear. Modeling helps identify and understand the relevant elements and their relationships.

Osterwalder and Pigneur (2010) note that when trying to understand different business models it is necessary to keep the perspective on a system level and avoid going too far into details as this will inevitably result into the loss of the bigger picture. Since the aim of this study is to develop an understanding on shopassurance on a business model level and then examine the phenomenon from a Finnish perspective, the business model canvas provides a practical way of representing the findings on a general level in a structured way and can serve as a starting point for further analysis.

3.4 A P&C insurance company's business model

Now that the concept of the business model and a case for visualizing business models has been made it is time to take it into action. The business model of a hypothetical P&C insurance company's personal line will now be visualized by using the business model canvas. This is done in order to prepare the reader for the next chapter where the shopassurance phenomenon will be looked at from a business model perspective and to provide a basis of comparison for shopassurance business models.

3.4.1 The nature of insurance

The main gist of insurance will now be presented in order to identify some of the key aspects of the insurance business. The following description is based on Lloyd's (2013) information package titled: "What is insurance?"

Lloyd's (2013) describes insurance as the main way for individuals to reduce the financial impact of a risk occurring. A business that provides insurance agrees to take on risk on behalf of an individual for a fee, a premium. This is done by providing the individual with an insurance contract, a policy. This policy covers the person for many of the costs that would have to be met as a result of a risk occurring. The insurer can sell policies through several channels for example, agents, the Internet, telephone and brokers. The fee, or a premium is based on the likelihood of the insured risk happening and its value.

The insurer collects premiums on several policies and then pools these funds, which are then invested to increase the amount of money held. The available funds that the insurer can invest are referred to as the float. Should any insured risks occur the insurer would pay out on that claim from the pool of funds. Insurers are businesses that make a profit when the total amount of received premiums and investment profits exceeds the total claims that have to be paid out. (Lloyd's 2013)

A crucial process of an insurer is underwriting. Underwriting is the process by which the insurer decides whether or not it provides coverage. This is done by looking at the various circumstances that surround a risk, such as; the likelihood of it happening, the amount of loss that could be occurred, risk mitigation that has already been done and so forth, the insurer can decide if it wants to underwrite the risk and at what premium. (Lloyd's 2013)

With the aid of this description on the nature of insurance business the key elements that constitute a business model can be identified.

3.4.2 Key elements of a P&C insurer's business model

In order to understand the insurance business model the various parts that make up the model must be identified. As was previously presented the various components are the product, the customer interface, the infrastructure and the financial aspects.

The product in insurance is the policy that is being sold to the individual. The broad customer value proposition of a policy is the possibility to reduce the financial impact of a risk occurring. Another way of looking at the value proposition is that insurance enables the individual to transform the previously unknown financial effects of risk into a predetermined amount that is to be paid annually.

The customer interface component consists of the customer segments, channels and relationships. The customer segments of insurance can be defined on a needs basis and therefore insurance coverage can be offered to all individuals with the need to manage the effects of risk that they incur in their day-to-day lives. Of course not all risks are insurable and therefore segmentation may be developed to include only

people whose risks are insurable. The channels by which the insurer will interact with the insured can include a web page, call center and a network of traditional brick and mortar stores. The relationship the insurer wishes to establish is one that includes personal service through the call center and brick and mortar channel and automated self-service through the insurer's web page.

The customer interface component describes what is needed in order to offer the product and customer interface. The insurance industry's main processes therefore include the selling of policies, underwriting, claims management and the investing of premiums. As the insurance business is dependent on the ability of the insurer to gather and process data into information that is used in the underwriting process it is only natural that IT-systems are a core resource of insurers. Without modern technology and advancements the resources needed to provide insurance coverage at the current scale would be extremely labor intensive. Insurers have a large network of partners that come to play usually when a risk has occurred. For example in Casco insurance claims adjusters are used to estimate the financial damage, auto repair shops that are used to repair the damages are usually predetermined and have service contracts with the insurer.

The financial aspects of a P&C insurer can also be identified with relative ease. The main cost drivers in insurance are the payments of claims, salaries and the costs of the tangible assets, such as IT-systems, buildings and so forth. McKinsey (2010) a US based consulting company, found that the IT component is a crucial part of an insurers performance. When they surveyed over 80 P&C and life insurers they found that the differences in cost performance could largely be explained by the IT-component of an insurer's the business model.

Once all the main elements of a P&C insurer's business model have been identified we can visualize the information by using the business model canvas. By looking at the canvas it is easy to get an overall understanding of how a traditional insurer creates, captures and delivers value.

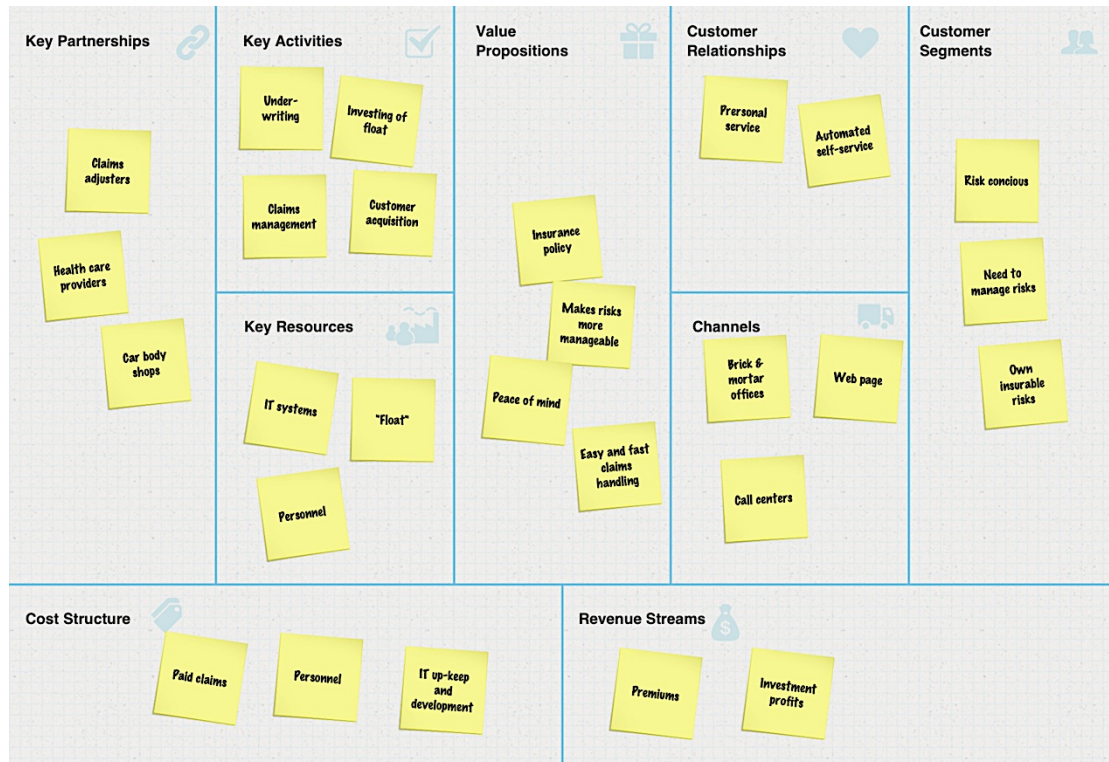


FIGURE 21 The business model canvas of a traditional P&C insurer

4 SHOPASSURANCE IN A BUSINESS MODEL CONTEXT

Lambert's (2002) conceptual framework for business model research identified five levels ranging from the definition of business modeling to business model representations. The development of retailers' financial service offerings were depicted in chapter two and the business model concept and definitions in chapter three. As the aim of the research is to study shopassurance from a business model perspective and to find out whether some elements are emphasized this section will look at four shopassurance business models by MetLife, Canadian Tire Insurance Services, Future Generali, and Tesco from a business model perspective. These four cases are the same that were used in chapter 2.4 as examples in the classification of shopassurance business models based on an adaptation of Teunissen's (2008) bancassurance typology.

Table 3 Forms of shopassurance based on an adaptation of Teunissen's (2008) bancassurance categorization

Form of Shopassurance	Insurer	Retailer	Brand	Lines
Pure distributor Model	MetLife	Walmart	MetLife	Life
Strategic alliance model	Johnson Inc.	Canadian Tire	Canadian Tire Insurance Services	Non-life
Joint venture model	Generali Group	Future Group / Pantaloon	Future Generali	Life & Non-life
Financial holding company model	Tesco Underwriting	Tesco	Tesco Bank	Life & Non-life

The four examples will be covered in unison with each of the nine business model elements in order to provide a description of the various nuances in the elements of shopassurance business models. After the examples have been broken down into the nine elements each business model will be visualized with the Business Model Canvas tool and the findings will be discussed.

4.1 Product

The product or core offering of shopassurance seems to be similar to the offerings of traditional insurers. Campbell & Webersinke (2010) defined shopassurance to be the selling of insurance products through existing retailer channels.

In the case of MetLife and Walmart's life insurance in a box –concept the product itself is the same as in a traditional term life insurance policy that is available for purchase through other channels such as agents or call centers. The offering is not restricted to only Walmart patrons as one can buy the same policy through other channels as well. The convenience aspect of being able to buy insurance while shopping for other daily items is a part of the value proposition from an access point of view but this does not receive that much attention in MetLife's marketing communication. The customer value proposition that has been built around the life

insurance in a box –offering draws on the idea of simplifying the purchase of life coverage and speeding up the purchase process. This is communicated in the advertisement slogan “I can do this.” (MetLife 2013)

Johnson Inc. provides white-label insurance services in partnership with Canadian Tire under the brand name Canadian Tire Insurance Services. The offering itself is similar to what competitors offer with the addition that Canadian Tire Insurance Services also offers tips and advice on home and auto maintenance. This can be seen to be a natural fit for the retailer (Canadian Tire 2013). In addition to the value proposition of the traditional insurance offering Canadian Tire Insurance Services also puts emphasis on the Canadian Tire brand by advertising that consumers should buy insurance from the brand they trust (Canadian Top Insurance Broker 2012). McDonald (2010) identified that a large majority of customers usually have significant difficulties differentiating between the brands of major insurance companies. When Interbrand (2012) Listed Canada’s top 25 brands by value Canadian Tire was ranked 11th. The use of a trusted brand in the marketing of insurance is a clear part of the value proposition offered by Canadian Tire Insurance Services. Beyond the brand aspect the value proposition is very similar to what other P&C insurers offer.

Future Generali’s mallassurance policies that are being sold in the Future Group’s retailing outlets are also available for purchase through other channels with heavy emphasis put on the online channel. The customer value proposition is similar to the policies sold through other channels. Mallassurance mainly highlights the convenience aspect of purchasing insurance coverage from a retailer location. The mall culture in India is constantly developing and people view malls as recreational places and are spending considerable amounts of their free time at malls. The value created by bringing services to where people are is a central part of the value proposition. (FutureGenerali 2013)

Tesco Bank on the other hand seems to have extended its value proposition around the traditional insurance offering, instead of focusing solely on it. Not surprisingly Tesco highlights its Clubcard loyalty scheme while portraying the value proposition of the various types of policies it offers. The opportunity to earn Clubcard points, get cash

back or to qualify for a Clubcard discount is communicated clearly and loudly to the consumer as can be seen in the two advertisements on Tesco Banks website (see figure 19). Tesco Bank's value proposition focuses more on the benefits of being a loyal customer to Tesco than to the attributes of the insurance that is being offered.



FIGURE 19 Advertisements of Tesco insurance to Clubcard members (Tesco 2013)

Osterwalder (2004) defines a value proposition as something that covers all the aspects of what a company offers to its customers. All four shopassurance value propositions can be seen as somewhat similar in essence. The core is similar to a traditional insurer's value proposition of offering protection, fast claims handling and the right coverage. But shopassurers seem to put emphasis on the easiness of buying coverage and possible customer loyalty program benefits.

It would seem that the bigger the role of the retailer is in the shopassurance business model the more differentiating factors can be seen in the value proposition. Moving beyond the benefits provided by the channel and into additional services and benefits such as tips on maintenance for the insured property or benefits and discounts that can be attained through the retailer's loyalty program.

Overall there is evidence that supports the notion that retailers, which have entered the financial services markets, especially in the UK, seem to have been able to create high

levels of confidence amongst consumers (Alexander & Pollard 2000). Shopassurers' offerings have not been studied from a value proposition perspective and the research on the value propositions of traditional insurers is also scarce. The studies that have been conducted have shown that insurance customer value propositions need to be tailored to specific needs and customer types that might not yet be fully recognized (Maas, Graaf & Bieck 2008).

4.2 Customer interface

The customer interface component of the shopassurance business model describes how the company goes to market, how it reaches its customers and how it chooses to interact with them. The relationship aspects of the different shopassurance business models will be described to the reader.

4.2.1 Customer segments & Channels

As shopassurance is concerned with the selling of insurance coverage to the existing customer base of retailers the main customer segments is self-explanatory. However on needs based segmentation the customer segments are most likely going to be similar to a traditional insurer. This is mainly due to the fact that the offering in the shopassurance channel is still similar to that of any other insurer. Underwriting practices affect customer selection processes even though emphasis is given to the existing customer base of the retailer.

MetLife's life insurance offering is aimed at customers who are new to the life insurance market. The product has been designed to be more straightforward than previous life insurance policies and the term life coverage offered in the package is relatively simple to understand. The decision to offer the product also in the retail channel through Walmart in addition to traditional channels is, according to MetLife, an attempt to reach the under-served population that normally shuns life coverage due to expenses. Walmart has been identified as an efficient channel with which to reach these segments. (Burris 2012)

Canadian Tire insurance is provided and serviced by Johnson Inc. through its call centers. Customers cannot purchase Canadian Tire insurance at the company's retail locations. Canadian Tire has also a financial services branch, Canadian Tire Financial Services, the main business of which is to market and manage customers Canadian Tire MasterCard credit cards (Canadian Tire Financial Services 2013). However insurance products are not marketed through this channel either. The Insurance Brokers Association of Canada, IBAC, estimated in 2011 that the deal by Johnson Inc. to retail insurance under the Canadian Tire brand would not shake up the market. IBAC noted that the main question with Canadian Tire Insurance Services is whether or not consumers are willing to buy insurance through this platform (Canadian Insurer Top Broker 2013). The customer segmentation for Canadian Tire Insurance the same as with a traditional insurer but with the addition that the most potential customers will view Canadian Tire as a trusted brand and are willing to trust it in financial services as well.

Future Generali has aimed its mallassurance activities at shoppers who frequent malls. A study by McKinsey and company (2011) estimates that the insurance market in India will continue to be one of the most attractive in terms of growth and that companies will need to focus on the various challenges in a multi-channel market. The customer segments in India will continue to evolve as new segmentation criteria arise due to demographic shifts. Malls and shopping centers would seem to offer a natural channel through which to tap into this ever-expanding market in a new and novel way. As noted in relation to microinsurance distribution solutions, mallassurance offers Future Generali a large infrastructure footprint that could not be achieved without retailer presence in the joint venture.

Tesco has used its Clubcard loyalty scheme to build an attractive rewards system that is integrated across Tesco's own offerings and also those of its partners. Clubcard points can be accumulated by shopping at Tesco and using Tesco's financial services (Rowley 2005). The various discounts and rewards on insurance offered to Clubcard owners gives hints that Tesco is actively seeking to expand its current customer relationships to encompass insurance services. While Tesco does not limit coverage to only current patrons it is clearly more attractive to them than people who are not Tesco Clubcard holders. Tesco Insurance can be purchased through established

service centers at Tesco retail locations, by telephone or through the internet. (Tesco Bank 2013)

4.2.2 Customer relationship

Retailers have been investing in various loyalty schemes with the focus on gathering customer data. As such the customer relationship aspect may be expected to be more meaningful to shopassurers whose insurance business is more integrated with the retail business. The customer relationship element of the business model would seem to be a meaningful element in the shopassurance business model as it is in the bancassurance business model (Risso 2010).

The pure distributor model by Metlife and Walmart offers little leeway for Metlife to pursue Walmart's customers as the insurance in a box –offering can be seen as a just another product on the store shelves. The acquisition part of the customer lifecycle is beyond MetLife's control. The deal only facilitates the distribution of the product. No other ties are being formed. There would seem to be little possibility for Walmart to deepen its customer relationships via Metlife's insurance offering.

Canadian Tire Insurance Services' offering has the same setbacks in terms of CRM aspirations as the Metlife and Walmart deal. Johnson Inc. is responsible for all aspects relating to the insurance service. Canadian Tire only offers its brand name to the product, there is little to no exchange of customer information between Johnson Inc. and Canadian Tire. Johnson Inc. will handle all CRM activities that are to be conducted in relation to an insurance-based customer relationship but it does not gain access to Canadian Tires customer databases.

Future Generali is giving the customer relationship element more attention than Metlife and Canadian Tire Insurance Services. While many of the products that are to be distributed in Future Group malls are priced at very attractive price points the main objective is to raise awareness of insurance in the growing segment of mall goers in India. By lowering the bar of purchasing insurance Future Generali hopes to build new customer relationships that can be nurtured and in time be expanded to include more sophisticated insurance products as well. From a relationship theory point of

view Future Generali's mallassurance distribution strategy could possibly have an impact on the already existing network of tied agents. However the main objective of mallassurance is to make younger customers aware of insurance as a product and after the initial low-ticket policy is sold an agent may contact the customers and offer them higher ticket policies and expand the customer relationship (Moneycontrol 2008).

Tesco Bank's insurance offering is marketed with heavy ties to the Clubcard loyalty scheme. From a CRM perspective customer information that the Clubcard scheme provides has already been used in identifying new potential pet insurance customer segments from Tesco Bank data. Customer lifetime decision-making criteria were used instead of traditional insurance purchase behavior. A primary purchase audience was then identified as a segment that saw their lives through their children. Children's desires, needs and feelings were noticeable drivers of purchase decision within this group. A "kids choice" prospect audience was selected from the Clubcard database that owned pets. Advertising and marketing communications were then tailored for this group. These kinds of CRM activities are made possible by access to databases, which include information on more than just traditional insurance activities. (WDMP 2013)

Across the four examples of shopassurance CRM activities were more or less present. It seems that as was evident in Teunissen's (2008) classification of various forms of bancassurance the level of integration between the parties is directly related to the level of data sharing. When shopassurance is concerned with merely using the retailer as a channel or as a trading name little CRM activities can be observed from the insurance business perspective. However when shopassurance is practiced under a joint venture or a financial holding company model, the level of CRM activities is higher. This was the case with Tesco where insights into customer's practices were gathered from a wider customer relationship and could be leveraged into more effective customer management in the insurance business.

4.3 Infrastructure

The infrastructure component describes how a company creates value (Osterwalder 2004). It comprises of the key resources and processes that a company utilizes in order to deliver its value proposition and the key partners that are needed. Many of the resources needed in the four shopassurance business models are similar to those of a traditional insurer but there are differences that can be observed on a general level. In the following parts only the main differences between the traditional insurer and shopassurance business models will be highlighted in order to avoid any unnecessary repetition.

4.3.1 Key Resources

Since MetLife's Insurance in a box has to be activated by calling a MetLife call center in order for the policy to be underwritten the call center is a key resource needed to fulfill the customer value proposition. In order for MetLife to be able to attract the attention of customers it needs to be able to position its offering on the shelves of Walmart so that customers will take notice. Prime shelf real estate is a key resource. MetLife's knowledge and expertise in life insurance in general is a crucial resource, as without it, profitable underwriting could not be conducted.

The main key resource of Canadian Tire Insurance services is the Canadian Tire brand under which Johnson Inc. operates. Without it the offering does not stand out in the marketplace and is highly similar to other offerings that Johnson Inc. is currently offering in other channels. All the other resources and activities needed in this business model are similar to those of a traditional insurer.

Future Generali as a joint venture brings together the resources of a major Indian retailer and of a global financial conglomerate. While Future Generali is active in retail locations by way of its mallassurance channel strategy it is also a fully-fledged private insurer operating in traditional channels and growing rapidly with 58% growth in written premiums in 2010-2011 compared to 2009-2010 (Future Generali 2012). The mallassurance kiosks located in various Future Group retail outlets are a key

resource through, which Future Generali aims to deliver its value proposition of affordable insurance, ease of purchasing and heightened insurance awareness. Knowledgeable personnel are needed to pass on information and raise interest in insurance. On the other hand the insurance expertise of Generali brings product knowledge, which is a prerequisite for product innovation.

Tesco Bank's major resource is the vast amounts of customer data that is being generated by the Clubcard. The data that is gathered not only at Tesco's own retail locations but also through the network of Clubcard partners. This enables Tesco to gather information ranging from groceries shopping to travel services (Rowley 2005). The CRM IT-framework within which these vast amounts of customer data are being processed is a key resource without which Tesco Bank could not leverage its customer knowledge (Uncles, Dowling & Hammond 2002). While there are legal restrictions on using customer purchase data for underwriting purposes it can already be used for marketing means as proved by the Tesco pet insurance example (Rossouw 2012).

4.3.2 Key Processes

Since the main component of MetLife's insurance in a box customer value proposition is the easiness of getting coverage the purchasing process is crucial (Rhone 2012). MetLife has little to no control over the experience that customers have at Walmart locations while purchasing coverage. However once a customer has purchased the product the ball is in MetLife's court. The customer places a call to a MetLife call center in order to answer a few health related questions to activate the policy. A key process for MetLife is the underwriting process that is conducted over the phone. If the customer is unable to qualify for coverage they may return the box to Walmart for a refund, this process is once again out of MetLife's hands. Since the ownership of the various processes that make up a customer's purchasing experience is diversified this may prove to be problematic in terms of managing the experience.

Canadian Tire Insurance Services' key processes are the same that a traditional insurer has. It is a direct to consumer approach where the broker/agent component is cut out from the value chain (Canadian Insurer Top Broker 2013). In order to create

the value proposition a key process is the ongoing branding and advertising of the services to potential insurance customers that are loyal to Canadian Tire.

Future Generali's key process is above all the promotion of insurance at retail locations. Without insurance offerings being on display at convenient locations for Indian shoppers the level of awareness of insurance cannot be elevated. Another is the expansion of the mallassurance network (Future Generali 2012). Getting access not only to insurance products but also to personal financial advice is a key part of the mallassurance value proposition (Deloitte 2010). Teaching and raising mall goer's awareness of insurance products by actively engaging them is another key process of Future Generali's mallassurance activities.

CRM activities are central in Tesco Bank's customer data driven business model. Therefore it is only natural that several of the key processes of the business model are related to CRM. But beyond traditional insurers risk-centric analytics Tesco Bank has shifted strategic focus towards customer-centric analytics. By building on internal information collected within the financial services context and extending it with the vast data generated by the Clubcard scheme across all of Tesco's business activities Tesco Bank is able to look at customers at a more granular level. The gathering, analysis and generation of customer insights based on customer data are key processes of Tesco Bank. The actions taken based on the customer insights may include targeted marketing, new products or service extensions (Tesco 2012). Even though Tesco Underwriting works with Tesco Bank to underwrite auto insurance many policies are underwritten by partners while Tesco Bank takes an arranging and administrative role.

4.3.3 Key Partners

MetLife's key partner is of course Walmart. The key resource that MetLife needs for its boxed insurance is shelf space at retail locations. Without high visibility at Walmart locations shoppers will not notice the insurance offering and the vast customer base cannot be exploited.

Canadian Tire Insurance Services main partner is Canadian Tire. Beyond the brand of all the other key partners are ones that already exist in Johnson Inc.'s value network

such as sister companies like the Unifund Assurance Company that was acquired by RSA in 1997 that underwrites most of Canadian Tire Insurance Service home insurances (RSA group 2013).

Future Generali's key partners are the parent organizations of the respective joint venture partners, the Generali Group and the Future Group. As a joint venture both companies have vested interests in developing the company and giving access to resources controlled by the parent organizations for example access to Future Group retail locations.

Tesco Bank's main key Partner is Tesco's retail business and the partners that are linked to it via the Clubcard scheme. Even though Tesco has its own underwriting company, Tesco Underwriting, many products are still being underwritten by partners such as Ageas Insurance limited, Groupama Insurance Company Limited and AXA Insurance UK plc.

4.4 Financial aspects

The Financial aspects of the business model should include the profit formula (Johnson et al. 2008). It is the blueprint of how a company creates value for itself while providing value to the customer as well. In a shopassurance context it is necessary to point out that the value created by a shopassurance business model may include some indirect effects that are difficult to measure. For example the offering of insurance services to retailer's customers may result in increased loyalty towards the retailer and lead to higher overall sales as was suggested by Risso (2010). However the cause and effect relationship may be hard to prove.

Since the basic product in the shopassurance business model is still insurance and none of the four cases present radical differentiation from the traditional insurers profit formula it can be expected that only minor differences exist.

In the more integrated shopassurance business models where the insurance offering is more tied into the retailer with private label arrangements or with mutual ownership

structures the retailer benefit would seem to be a mix of revenues generated by the new business line and growing brand and retailer loyalty as customers are more tied into a certain retailers offering and loyalty scheme.

From a cost perspective the main cost points that arise from various shopassurance models have to do with distribution. The setting up of kiosks and service center in retail locations is an expense that the traditional insurance business model does not face. However as these arrangements are often done between partners with mutual goals the cost effect can be expected to be manageable. The further a retailer chooses to integrate the insurance offering into its own activities the more costs will be incurred mainly through the integration of IT-systems between the insurance and retail business lines. The effective use of customer data in shopassurance requires effective technical solutions were different data bases can be queried simultaneously in order to benefit most from the vast amounts of customer data.

4.5 Visualizations and key differences

Next the visualizations of the four shopassurance business models will be presented after which the key difference between the traditional insurance business model and shopassurance business models will be discussed. As can be observed the more integrated the activities of the insurer and retailer the more differences can be observed between the shopassurance and traditional insurer's business models. In the canvasses the green post-it notes, also marked with a black dot, reflect elements that are different from a traditional insurance business model.



FIGURE 22 Business Model Canvas of MetLife and Walmart Life Insurance in a Box

The business model that is built around the Insurance in a box offering is strikingly similar to a traditional P&C insurer's business model. The main differences are all centered around the channel element. The value proposition is designed to emphasize the ease of purchase, which is made possible by the channel. The key resources and activities are similar to a traditional insurer in addition to infrastructure elements that need to be present due to the choice of channel involved such as shelf visibility. The main costs that are involved in the model are the same as with a traditional model with the addition of marketing costs brought about by the selected channel. All in all there is not significant differences when compared to a more traditional P&C insurer's business model.



FIGURE 23 Business Model Canvas of Canadian Tire Insurance Services

The business model of Canadian Tire Insurance Services is the same one that Johnson Inc. utilizes when working under its own brand with the exception of the elements relating to the use of the Canadian Tire brand. As can be seen from the visualization the main differences are elements that are present because of the white label agreement between Johnson Inc. and Canadian Tire. The other parts reflect the business as usual approach.

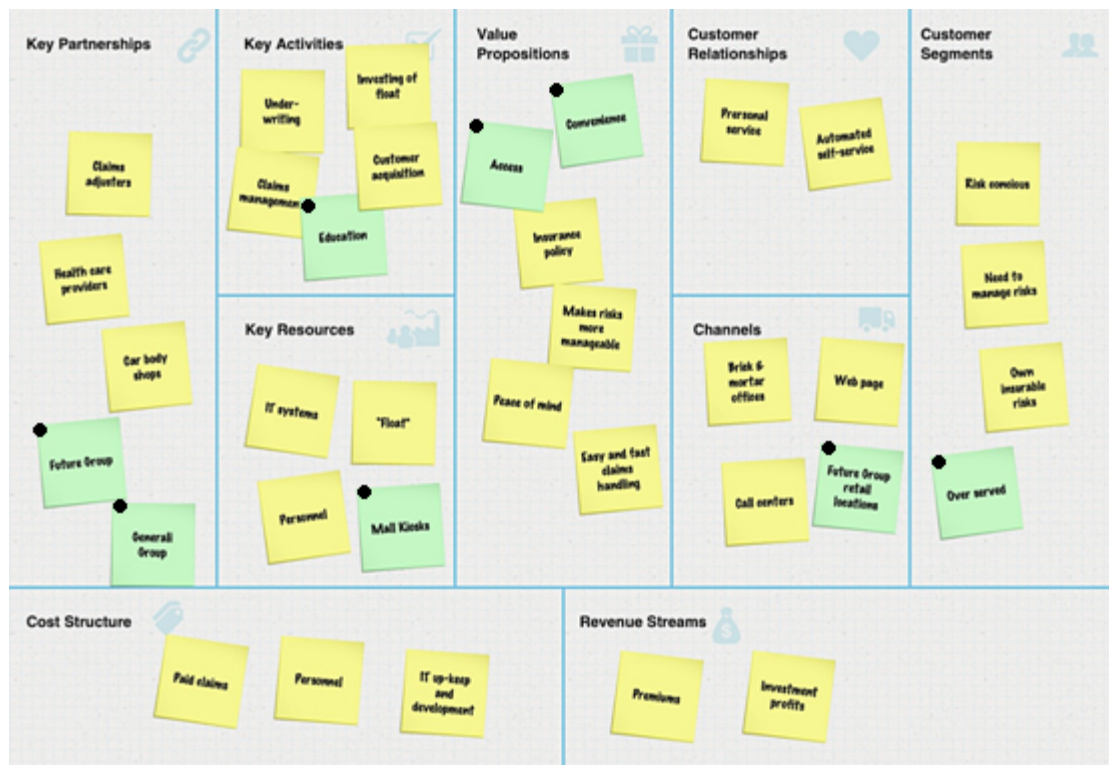


FIGURE 24 Business Model Canvas of Future Generali's Mallassurance

In the joint venture between the Future Group and Generali there seem to be more new elements than in the two previous shopassurance business models. The value proposition is still rather similar even though emphasis is given to highlight the benefits of using the shopassurance channel. The customer segmentation is similar to a traditional insurer. New activities and key resources are present all of which are not just channel related. It would seem that at least in the Indian context mallassurance is more than just a distribution solution but it serves also as a platform with which to raise awareness amongst potential new customers. Key partners include the organizations of the two owners of Future Generali.

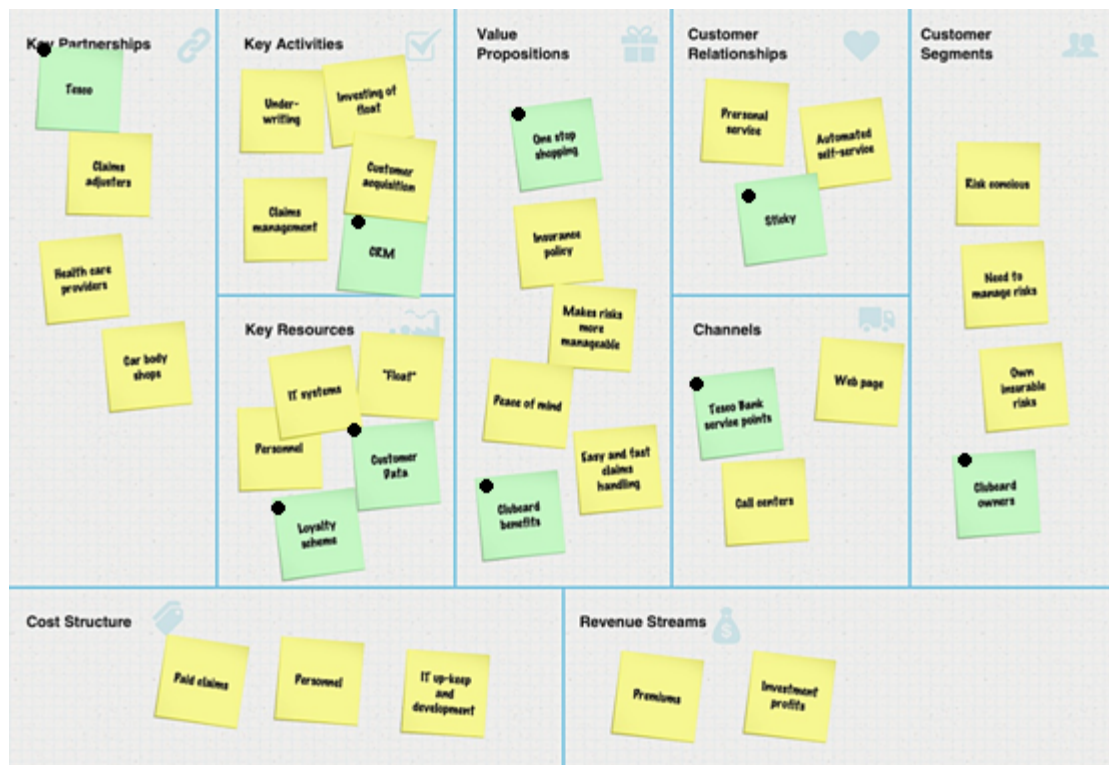


FIGURE 25 Business Model of Tesco Bank's insurance services

The business model canvas of Tesco bank's insurance offering clearly highlight the importance of the retailer's Clubcard Loyalty scheme and CRM function. As Tesco as a retailer is characterized by being a knowledge led retailer that strives to better its offering by using customer data as a basis for decision making it is only natural that the same pattern is visible in the financial services offering as well. A traditional insurer cannot imitate the business model of Tesco Bank because of the key resources that are based on the loyalty scheme that is managed by the parent company. The customer relationship can be described as being sticky because Tesco seeks to create a lock-in situation for the customer through its loyalty scheme. This business model out of the four cases differs most from the traditional insurer model.

From the visualizations it is clear that the more influence the retailer has in the shopassurance business model the more it differs from the traditional insurers business model. When the co-operation entails only distribution agreements the business model is almost identical to that of a traditional insurer. However as the retailer and insurer enter into a strategic alliance the level of co-operation deepens and can have effects on other elements of the business model beyond just channels. Figure

23 highlights the observed shift from a traditional insurance business model to one where a retailer has more influence based on ownership.

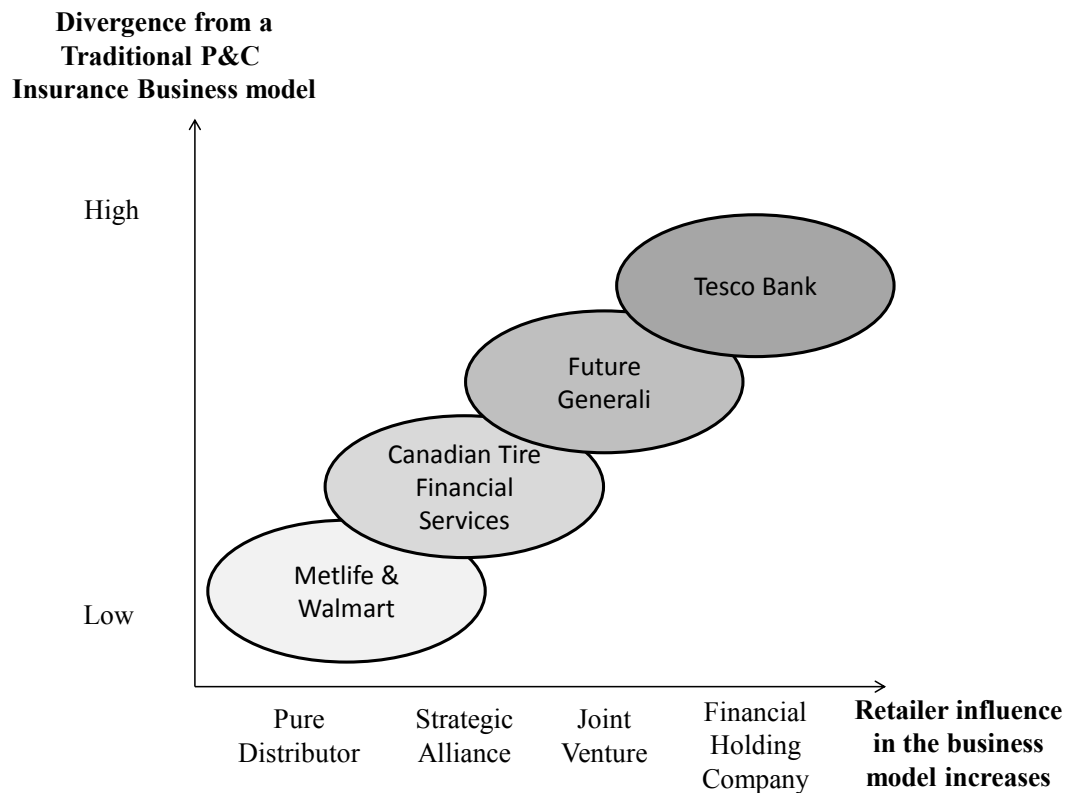


Figure 26 Divergence from a traditional insurance business model based on shopassurance business model ownership (adapted from Teunissen 2008 bancassurance classification)

As the retailer gains an opportunity to better integrate the insurance activities with its retail activities the more divergence from a traditional insurance business model can be seen. All the four cases are examples of shopassurance business models but there are clearly great differences between them. It is therefore clear that shopassurance must not be understood as a single business model that includes only variations in distribution when compared to traditional insurance business models. Instead it needs to be seen as group of insurance business models that are defined by a form of retailer presence.

5 SHOPASSURANCE FROM A FINNISH PERSPECTIVE

In order to gain insight into the feasibility of shopassurance in Finland expert interviews were conducted with representatives from companies acting in the Finnish insurance and retail market. First a brief description of the personal insurance market in Finland will be presented in order to give the reader an overview of the operational environment. Then the two interviewed possible future shopassurance actors will be presented and finally the key findings from the expert interviews will be discussed.

5.1 The operational environment

5.1.1 Market structure

The net written premiums of the Finnish non-life market were 3859 M€ in 2011. The Finnish personal insurance market is concentrated both in the non-life and life business lines. In non-life the three biggest companies, when measured by share in written premiums, control over 75 % of the market when the fusion between Tapiolaryhmä and Lähivakuutus-ryhmä is taken into account. The same concentration can also be seen in the life market where the three biggest insurers control about 75 % of the market. (FK 2012b)

The development of the mature Finnish non-life and life markets between 2002 and 2011 can be characterized with stable moderate growth, except for the noticeable drop of 32% in written premiums for life insurers in 2011. The number of insurance companies operating in the Finnish market has been fluctuating between 63 and 71 since the year 2000. (FK 2012b)

5.1.2 Current state of shopassurance

Co-operation between retailers and insurers has existed in Finland for some time now. The level of integration between the two parties has however not yet evolved as far as to include joint ventures or financial holding company models. The main forms of shopassurance in Finland are pop-up kiosks in retailer locations, bundled product

insurance and partnerships around retailer loyalty schemes. These three forms of Finnish shopassurance will now be presented to the reader.

Pop-up shops or stands are established for short periods of time in venues where insurers hope to engage with customers in an environment where they normally do not have a presence. If P&C Insurance Company has been active in bringing its various insurance roadshow stands to university campuses and sporting events. In the end of 2010 If did road show tour in partnership with ABC service stations that are operated by Finland's biggest retailer the S Group. During the tour If opened a pop-up style kiosk in select ABC service stations (22 in total). Customers visiting the service station could receive information on If auto insurance products, customer benefits and tire safety tips (ABC 2010). In accordance to the classification of different shopassurance business models the pop-up kiosk in this cannot be seen as a pure distributor model as customers could not buy coverage from the kiosks. Therefore it can be seen just as a form of product promotion.



FIGURE 27 IF pop-up stand at an ABC service station in 2011 (ABC 2010)

Product insurance offerings such as the one offered by Moderna Försäkringar insurance company in partnership with Gigantti, a Norwegian based home electronics retailer have been around in Finland since the turn of the millennium. Another home electronics retailer Expert Finland, which is part of the multinational Expert AS concern also as offers product insurance coverage to its customers. Product insurance can be seen as a facilitating service (Grönroos 1990) that can be is conducted under

the strategic alliance model as the retailers do not offer other companies insurance products.

The third form of shopassurance in Finland is the one where insurers are linked by strategic alliances to retailers on the basis of loyalty schemes. Currently If is linked to Finland's biggest retailer, the S-Group and they are paying S-bonuses to customers that have registered their respective S-Group loyalty card number with the insurer. This co-operation is however limited only to the bonuses. If and the S-Group do not share customer information with each other (If 2013b). Finland's second biggest retailer Kesko had a similar arrangement with Pohjola insurance where customers were eligible for Kesko's loyalty customer points based on insurance bought from Pohjola. The contract between Kesko and Pohjola ended in the summer of 2012 (Eurooppalainen 2012).

5.2 Two potential future shopassurers

While forms of shopassurance can already be found in Finland the phenomenon is still in its infancy. Business models that include a high level of integration between retailers and insurers have yet to be formed and retailers have not yet taken visible steps toward offering insurance services to their customers as a part of their financial services offerings. In order to gain insight into the shopassurance phenomenon in a Finnish context expert interviews were conducted with representatives of both retail and insurance companies. S Group and Finnish P&C Ltd. were chosen because their current business activities have elements that may naturally be developed to facilitate a shopassurance business model. The two companies and the experts that were interviewed are presented to the reader along with a more detailed description of why they are of interest to this study.

5.2.1 S Group

The S Group's roots date back to 1904 when the SOK Corporation was founded to coordinate purchases, offer advisory services and guidance to the growing numbers of cooperatives operating in Finland. SOK opened its first production plants in 1904. From those humble beginnings over a century ago the S Group has grown into the

largest retailer in Finland. The S Group is currently active in several different lines of business beyond traditional food retailing. Other lines of business include hotels, restaurants, financial services, car dealers, travel, gas stations, home renovation and hardware stores to name a few. In addition to these proprietary lines of business the S group's service offering is reinforced by a chain of partners. These partners are linked to the S Group by the S-Etukortti loyalty card scheme where purchases at partner locations also accrue bonus. (S Group 2013)

In 2007 the S Group launched its own bank with the aim to better serve its over 2 million co-op members. The S-Bank currently offers savings accounts, credit cards (in co-operation with VISA), web bank services and consumer credit services. When establishing banking services the S Group considered other viable options to a self-owned and operated bank. Partnering with an already established bank partner was considered but proprietary banking services were seen as the best way to support the S Groups business in general. In the end of 2012 the S bank had 2,6 million customers, 2 473 million euro in deposits and had issued over 1,1 million S-Etukortti Visa cards. (S-Bank 2013)

While the S group has not yet offered insurance services to its customers it has partnered with insurance companies via its S-Etukortti loyalty card scheme. Before 2008 S Group had a contract with Tapiola Group which it then then switched to If (Vaalisto 2007). Even though no official numbers of the effects of the S-Etukortti loyalty scheme to insurers' customer numbers have been released, there is speculation that a lot of Tapiola's clients followed S Group and switched to If when the partnership ended.

As the S group has strategically extended its service offerings either through strategic partnerships through the S-Etukortti loyalty scheme or by offering new services itself it is a force to be reckoned with in the Finnish retail market space. It has already shown an interest in financial services by offering banking services and is constantly looking for new ways to deliver better value to its co-op members. A deeper integration of insurance services to the S Group's offering may not be a farfetched idea. The S Group is an extremely interesting player when questions relating to shopassurance in Finland are raised.

In the time period when S-Bank was established and the S Group was actively looking for ways to extend its service offerings to financial services Kari Neilimo, Doctor of Science (Economics and Business Administration), was the CEO of the S Group. He has also been the chairman of the Federation of Finnish Commerce and authored a book on the topic of retailer's strategic competencies. With his extensive work history and background in the retail environment he was chosen to be interviewed to offer insight into the retailer perspective on shopassurance in a Finnish context.

5.2.2 Finnish P&C Ltd

Finnish P&C Ltd (Suomen Vahinkovakuutus) is a newcomer to the Finnish personal insurance business. The company currently sells insurance directly to consumers through the Internet and telephone channel, but does not have a brick and mortar presence. The insurer operates under the brand name of POP Insurance and was granted authorization by the Finnish Financial Supervisory Authority in the beginning of 2012. The company is owned by the POP Bank Group, which is a banking consortium that consists of 36 independent local banks. The POP Bank Group was established in 1997 (POP Pankki 2013).

The aim of Finnish P&C Ltd is to tailor products that meet the needs of their partners. They differentiate themselves from the insurance industry incumbents not only by their choice in channels but also by actively seeking new partners for their insurance operations. They define themselves as the digital insurance company. (POP Vakuutus 2013)

While Finnish P&C officially started selling policies to consumers in the late 2012 it has already signed a deal with Säästöpankki, a Finnish bank, to produce white label insurance services including, motor, home, boat, travel and accident insurance products under the Sp-vakuutus brand name. The insurance will be primarily sold over the Internet and is tailored to meet Säästöpankki's needs. To support the Internet channel, customer service will also be offered by call center, e-mail and online chat channels. (ePressi 2012)

Finnish P&C is actively pursuing a client base of its own under the POP Insurance brand name but at the same time it is connecting with partners to offer white label insurance solutions to various companies. The company's business model is built to facilitate the provision of insurance services in the online channel. The business model is used to drive insurance sales under the POP brand but also offers the possibility to produce white label insurance services with partners in various settings. Because of this business logic Finnish P&C is not just a new player in the Finnish personal insurance market but one that is implementing a different business model in comparison to incumbents.

Finnish P&C's CEO Pasi Puntari has an extensive background in the Finnish personal p&c insurance business, having held positions in several insurance companies with responsibilities over claims, product development and IT aspects of the business. He has been the CEO from the founding of Finnish P&C and was heavily involved in the process of building up this new insurance company. With his extensive experience of the personal insurance market in Finland and his insight into bringing new concepts into the market he was chosen to be interviewed in order to gain insight into the insurance company perspective on shopassurance in Finland.

5.3 Thoughts on the business model elements of shopassurance

The interviews were conducted as semi structured theme interviews in the end of February 2013. The four case examples that were presented to the reader in chapter four were briefly described to the experts. The interviews were then structured around these four cases. The interviewees were also asked about their views on the feasibility of shopassurance in Finland on a general level. The findings will now be discussed using the same business model element structure that was used in chapter four. Finally a business model canvas based on the key findings from the interviews is presented to the reader as a visualization and base for analysis.

5.3.1 Product

Insurer

Puntari highlighted the fact that the insurance industry in general is a fairly conservative business and that this has direct effects to customer expectations and on the customer value proposition. While shopassurance offers the possibility of creating insurance products with very different value propositions, compared to the traditional products on the market, this may not yet be possible due to consumer expectations. While research (Finanssialan keskusliitto 2012b) shows that consumer trust towards insurance companies in Finland has grown it is still not uncommon to come across opinions where insurance companies are seen as tricksters and that policy wording is unclear. According to Puntari consumers are already having a hard time trying to compare current offerings. Bringing totally new products and concepts to this type of market may prove to be difficult. Instead the offering should be built up by first introducing products that are similar to the ones already on the market and then differentiate them from the competition in the long run.

“The insurance markets are so traditional. People have come accustomed to a certain product and to differentiate from them by starting to sell completely different types of solutions might prove to be difficult for some time due to the lack of comparability from a customer point of view.” (Puntari 2013)

A key component of the value proposition in the shopassurance business model is the brand. Finding a retail partner with a strong brand to whom private label insurance products could be built is a viable option also in Finland says Puntari. However the fit of the insurance offering to the chosen brand should be considered carefully. The fit aspect of brand extension is a key component of customer acceptance as noted by Bottomley and Holden (2001). From this point of view the selling of auto insurance products under the brand name of a known auto parts retailer is more interesting than offering life insurance at the local corner shop. Customers need to believe that a company can deliver on their value propositions and perceived fit is a key determinant in this sense (Keller & Aaker 1992).

A possibility for new types of insurance value propositions in the shopassurance context could be to introduce insurance that is already built into the product. While product insurance is already widely available through home electronics retailers (e.g. Gigantti, Expert) as an additional service there is still room for innovation says Puntari. A viable option is for an insurance company and retailer to build an insurance product that automatically gives coverage for products bought from the retailer and that would be managed through the retailer's loyalty scheme. The price of the policy would be included in the price of the product. This way the customer would have automatic coverage after the purchase.

Bringing the value proposition of a traditional insurer into the shopassurance context by a business model where the retailer is viewed as a pure distributor is not very appealing. Puntari points out that these types of arrangements have already been seen in Finland and as such is not a novel idea. In order to provide a new value proposition in the shopassurance business model a deeper relationship with the insurer and retailer is needed. The thought is similar to what Teunisson (2008) stated in relation to bancassurance where close interaction between the bank and insurer enabled the most benefits.

Retailer

Neilimo highlights the fact that the driving force of a co-operative retailer such as the S Group is to provide co-op members with services and benefits. This guiding thought was also behind the choice to establish the retailer owned S-Bank. The business logic of a retailer is usually either one that specializes in a certain niche market or one that offers a broad spectrum of services to which a consumer is then tied to. The S Group follows the later one and has been implementing it successfully in Finland.

“Trying to establish a service offering so broad that customers are attached to the retailer through this wide offering creates a situation, where they don't separately go to an insurance company, pharmacy, bank or other service provider. Retailers with this strategy try to build a wide service offering that draws customers in.”
(Neilimo 2013)

The value proposition components from a retailer point of view would therefore be characterized by the overall service offering of the retailer. Integration of a retailer loyalty scheme is an essential part of a credible shopassurance business model says Neilimo. The S Group currently has a contract with If P&C Insurance Company where through a strategic alliance If is visible in the S Group's member mailing and other communication channels. If in part acts as a bonus sales outlet, meaning that co-op members that have If insurance are eligible for Bonus. This is in line with the S Groups strategy where services are offered to members either by producing them within the S Group or by offering them through partners.

Colgate & Alexander (2002) noted that retailers use financial services to enhance customer loyalty. This is reflected in Neilimo's statement that the retailer's aim is to create a broad service offering that draws customers in and creates stickiness. Risso (2010) also stated that the final evolution of financial services in retail companies would be aimed at increasing customer loyalty.

5.3.2 Customer Interface

Insurer

Puntari points out that one of the reasons why shopassurance is an interesting prospect for insurers is the access it provides to the retailer's customer base. The next is whether or not a retailer's customer base is big enough to support a profitable insurance offering. In Finland where two major players dominate the retail market this seems plausible. Customers that are loyal to the other retailer would probably not buy insurance products from the competing retailer. A central point that an insurer needs to consider is which retailer enjoys the most loyalty amongst its customers.

Designing new insurance products to meet new yet undiscovered market segments is a possibility but currently the legislation in Finland does not allow the usage of retailer data in underwriting practices. However more effective marketing communication and identifying new segments for current offerings could be possible in a shopassurance business model as was the case with Tesco (WDMP 2013)

One of the most obvious shopassurance aspects from a business model point of view is the channel component. Retailers may be used simply to distribute current insurance offerings. Puntari points out that pure distribution is not a very attractive possibility as several other potential benefits of shopassurance would be lost. This however does not mean that insurance couldn't be marketed at retailer locations. Tight co-operation between retailer and insurer is seen as a prerequisite for the benefits of a shopassurance business model. This was also observed in the four case examples presented in chapter four.

A mix of both brick and click might be a suitable starting point for shopassurance in Finland. Using the retailers' physical locations as a channel to raise customer awareness and advertise the insurance offering. Whether it would be profitable to sell insurance at these physical locations is a different question altogether. Puntari suggests that a better alternative would be to build a channel mix where the physical retail locations act as a means to raise awareness and then guide customers to the Internet channel where the actual selling of policies would be facilitated. This model would lower the amount of resources compared to selling and underwriting policies in physical retail locations. Puntari is quick to add that this is still fairly close to the way business is done today. The use of a multi-channel strategy in relation to different parts of the customer's buying cycle has been suggested by (Osterwalder & Pigneur 2010).

“It is possible to combine both physical and Internet based service channels but overall the Internet is definitely more interesting.” (Puntari 2013)

An even more attractive channel for the insurer would be the retailers e-commerce platform. In Finland users of financial services have been quick to shift towards e-banking services and also insurance companies have noticed the movement of customers towards their Internet channels. Due to the business logic of Finnish P&C the possibility to produce private label insurance products that would be sold through a retailer's existing e-commerce platform is very attractive says Puntari. Insurers' own websites are not that attractive to customers and it would be of great value for insurers to be present on sites that people visit on a regular basis.

Alexander & Pollard (2000) argued that when financial services are being offered in an electronic environment the physical links between the customer and service provider become weaker. This highlights the importance that brands have in creating and maintaining relationships. Distributing insurance through the retailers existing e-commerce platform may be a solution to build bonds in an electronic environment.

“I can’t think of a better place to distribute insurance than the Internet. The product can be presented to the customer in a way that is appealing to them. Some want more detailed information and that can be given where as others are interested only in the price and want to move more quickly. It is a lot easier to offer these different types of service paths over Internet.” (Puntari 2013)

According to Puntari the customer relationship would ideally be highly automated and based on self-service as websites can be built to be very responsive and can offer mass customized service cost effectively. Amazon’s e-commerce platform is one of the most used examples when talking about personalized shopping experiences that are provided by automation.

Retailer

As the offering of benefits and services to co-op members is central to the retailer’s customer value proposition it is only natural that the main customer segment for a retailer is its existing customer base. In Finland S Group co-op members are highly loyal as over 80% of purchases made in S Group locations are those of co-op members says Neilimo. When the S group’s contract with Tapiola came to an end and they decided to partner up with If to offer benefits on insurance services to co-op members the amount of customers that switched insurers was measured not in the tens of thousands but in the hundreds of thousands.

The S Group interacts with its customers over several different channels. The S Group has a massive physical presence in Finland with around 1600 retail locations including for example department stores, supermarkets, hypermarkets and service stations. However with regard to the distribution of insurance Neilimo sees the Internet as the most interesting way of reaching the customer.

“If insurance products were to be offered as a face-to-face type of service the amount of personnel needed to facilitate this is huge. I don’t think that this is possible in every location. In this sense I have greater faith in insurance services that are offered over the Internet. This way the contact with the customer in the store may be smaller but larger on the store’s web page.” (Neilimo 2013)

The channel through which a retailer decides to offer insurance must be looked at from an accessibility point of view. Even though retailers have a network of physical locations ready through which to distribute insurance they do not have the trained personnel to do so at every location Neilimo points out. If the physical channel would be chosen a realistic possibility would be to use multi-service points at large or mid-sized retailer locations.

“When it comes to private label insurance products in Finland I believe that the most overwhelming typical solution would be to take them on-line for most parts and in this way the private label offering would be accessible to all consumers on-line.” (Neilimo (2013)

A pure distributor model where the insurance products are only offered in retail locations without any deeper co-operation between the retailer and the insurer are not attractive according to Neilimo. Overall retailers are not that interested in displaying other brand offerings that do not support the retailer’s business. This is because retailers brand themselves both with private label offerings as well as by branding their concepts with the aim of establishing relationships through these brands. As Burt (2000) pointed out retailers are eager to leverage their strong brands in new business markets.

The S Groups Bonus loyalty scheme offers the framework in which customer relationships are managed. From a relationship point of view the S Group has an impressive amount of knowledge on its loyalty scheme customers. This data is used to develop new service offerings and benefits to customers. If a retailer would simply act as a distributor of insurance products much of this data could not be used to its full

potential because the relationship that would develop after the sale would be between the insurer and insured leaving the retailer to the sideline. Neilimo points out that because of the high level CRM and the knowledge intensive management style within the S Group deep co-operation with the retailer and insurer must exist in order to create a win-win situation.

The nature of data ownership in the CRM function was brought up by Colgate and Alexander (1998) who studied it in the relationships between banks and retailers. As both Puntari and Neilimo noted the importance of customer data and the ability to act on customer insights would seem to be a crucial resource in a shopassurance business model and one that once again requires co-operation between retailer and insurer to maximize potential benefits.

5.3.3 Infrastructure

Insurer

In a shopassurance framework the key resources that an insurer can bring to the table are undoubtedly the knowledge about the process and the expertise about its various components says Puntari. One of the most concrete resources that insurers have is their IT system. Over time insurance companies have generated valuable knowledge and know how relating to several of the elements in the insurance value chain. This non-tangible resource is critical as well. In order for an insurer to be successful another key resource that existing insurers poses are their personnel. Depending on how integrated the shopassurance business model is, that is to say how much responsibility the retailer will take, the amount of resources needed to support the business model on the insurer's end will decrease.

From a business model perspective the possibility of handling only certain elements of the insurance value chain such as claims handling and payment is not that attractive to insurers. According to Puntari it could be done if it was profitable enough but he has some doubts. Under possible elements that could be produced under subcontracts Puntari lists call center activities and claims handling.

“If it (producing some elements of the insurance value chain as a sub-contractor) is profitable then why not. But to do it for a competitor when the sales fall into a different pot, then maybe that does not make it a very attractive proposition.”
(Puntari 2013)

From a potential retailer partner in a shopassurance business model an insurer would definitely look for a loyal customer base and also customer data Puntari says. In a joint venture based shopassurance business model the insurer would facilitate the insurance aspects and the retailer would bring their customer insights and data to the table, which would then be packaged into suitable product offerings the insurer. Teunissen (2008) noted that in a bancassurance joint venture model the possibility to leverage the each other's strengths is a key value driver the situation is similar in the shopassurance context.

In the case of a retailer that has a lot of loyal customers and offers banking services I see banking services as a link because in Finland bank affairs are handled on the Internet, which means that on-line services are used actively. Add to this the other services of retailers and you have an interesting web environment with a lot of activity. (Puntari 2013)

A key link for shopassurance business models with the retailer segment would be an existing banking business by the retailer. Since Finns have grown accustomed to handling a lot of their financial activities on-line a retailer with such a service would be able to bring this platform as a valuable resource to the shopassurance business model. An insurance offering could then be managed on this site that would already have a steady and frequent user base. This type of evolution from banking to insurance was also proposed by Risso (2010).

A lot of the key processes in a shopassurance business model from an insurer perspective have to do with traditional business as usual processes such as underwriting, policy management, and claims handling. As the retailer would be expected to bring valuable customer insight and data to the table a key process of an

insurer would then be to create new offerings and services to better meet the customer's needs and demands.

In a strategic alliance or joint venture type of shopassurance business model the insurer would probably be comfortable to give the retailer side the responsibility over the various marketing tasks and the job of raising awareness amongst the retailer's current customer base. This would especially come into question if the insurance were to be offered under the retailer's brand notes Puntari.

Retailer

From a retailer perspective a significant key resource is an existing CRM system, loyalty scheme and the data that it gathers. Neilimo is quick to mention that the S Group is managed by knowledge. This means that the decisions that are being made in the company are based on the information that is gathered through the loyalty program. Because of the type of management processes that have been put in place the S Group is extremely sensitive to possible shifts in customers' expectations and needs. These shifts will manifest in the customer data gathered through the S-Etukortti loyalty card scheme. Another key resource that a retailer would bring to a shopassurance joint venture is the knowledge of a customer centric business model. Retailers have been practicing customer centric business longer than the financial services sector and would probably have something to offer in this sense as well (Kuusela & Neilimo 2010)

“A well-managed retailer such as the S Group can bring as probably the most fruitful resource the CRM system. In this sense a retailer brings a complete customer database, which is immensely valuable. The monetary worth has to be in the hundreds of millions of euro.” (Neilimo 2013)

Neilimo estimates that the biggest resource that a retailer can offer to an insurer is its customer base. This customer base is an even more important resource if the customers are truly loyal to the retailer as is the case with S Group. The CRM systems that advanced retailers have in place are a critical resource that has enabled their success in the retail business. There is no reason why retailers would not leverage this

to its full potential also in the shopassurance context. Retailers that have created advanced CRM systems have also accrued a high level of IT system knowledge that would be a valuable intangible resource for example in a possible joint venture shopassurance business model. Ryals and Payne (2001) also emphasized the importance of customer data to financial service organizations.

As discussed with regard to the customer value proposition a retailer would most likely be interested in offering insurance services under its own brand. A key resource for the shopassurance business model is therefor also the brand of the retailer. Neilimo says that a strong retailer brand is obviously a prerequisite in order for a private label arrangement to be interesting as a shopassurance business model.

Neilimo also points out that retailers have a highly trained workforce in place and can also bring noticeable intellectual capital to the table. The S Group for example currently employs more than 700 M.Sc. (Business Administration). Retailers in Finland are also considered attractive employers and are able to source talented personnel when needed. If a retailer would choose to enter into shopassurance by creating its own insurance company Neilimo sees no reason why retailers could not attract the right employees and intellectual capital to begin the building process.

If a retailer already has a banking business in place this is a great resource when expanding into the insurance business says Neilimo. Not only can it be used as a channel within the retailers existing channel network to distribute insurance products but it also acts as a natural base from which to expand the retailer's financial services offering. This may partly be due to the fact that the perceived fit for a retailer to offer insurance services is higher when that retailer is already active in financial services in the form of banking (Laforet 2007)

“To bring an insurance offering to the same competence field as banking services in the case of S-Bank is an attractive option. This is because there already a trained staff in place that is used to dealing with financial services. To me this would seem to be an effective solution.” (Neilimo 2013)

From an activities perspective in a shopassurance business model the main activities for a retailer would have to do with marketing, distribution and the generation of usable information on customers. According to Neilimo these are already key processes within a customer centric retailer's business model. As the S Group has extended its service offering to other lines of business these key processes are being leveraged there as well.

Should a retailer choose to take the same route as Tesco and start its own independent insurance company the key activities would then include similar processes that a traditional insurer has. Neilimo estimates that a retailer might start by offering simple insurance products and then as knowledge and experience is gathered go on to produce a broader insurance offering to its customers. This would also support DelVecchio's (2001) assumption that retailer brand extensions would be more successful in categories that are not overly complex.

From an activity point of view the cultivating of new competences and developing the newly started business is key. At the same for a retailer's insurance company to be able to attract top talent from within the insurance sector it needs to be seen as an attractive employer and actively hire new talent as the business grows. Neilimo says that when the S Group started the S-Bank the attraction of new talent to their financial service business was a manageable task. In Finland the big companies in the retail market are seen as attractive employers.

“The retail sector in Finland has been a very attractive employer and especially for people with second degree university diplomas in the field of business the medium wages have risen steadily.” (Neilimo 2013)

5.3.4 Financial Aspects

Insurer

Depending on the type of shopassurance business model that would be chosen the costs of operations for the insurer vary. For the most part however the cost structure is similar to that of a traditional insurer with the exception of marketing costs that would

partly be born by the retailer. In a shopassurance alliance model that is based on a private label agreement such as the example of Canadian Tire Insurance Services the insurer incurs certain fees for using the retailer's brand. The possibility of producing some elements of the insurance value chain as a sub-contractor does not seem that appealing to an insurer as Puntari pointed out mainly due to the fact that the profits would not benefit the insurer but rather its competitor.

If a retailer and insurer were to start a joint venture one of the biggest costs would be the integration of IT systems especially in the customer relationship management areas. As both the insurance and retail business is rely on complex IT systems to be able to operate effectively it can be expected that the task of integrating parts of these systems would be resource intensive.

The revenue from shopassurance from an insurer perspective is similar to that of a traditional P&C insurer. The exception would be the possible sub-contractor model where the revenue stream would consist only of payments by the retailer for the specific services.

Retailer

For a retailer the costs of a shopassurance business model are dependent on how much activities the retailer chooses to produce in house. In a pure distributor model the costs are noticeably lower compared to a situation where a retailer produces the service on its own such as Tesco Bank does. Regardless of the chosen model the marketing costs are usually carried by the retailer. This is natural as usually the new services that are being offered are targeted primarily at the retailer's existing customer base and the retailer has extensive experience in communicating its value proposition to its customers.

Depending on the distribution channels the retailer would need to invest in training for its employees and maybe hire new personnel. However Neilimo pointed out that in order to get sufficient coverage for the distribution of insurance services in Finland significant investments would need to be made to build a distribution network. This is one of the reasons why online distribution is so attractive because it is more cost efficient. Finnish retailers have learned to operate highly efficiently in a sparsely

populated country and have been able to transfer this efficiency to other lines of business as well.

“A retailer could do this (start an insurance company) very cost efficiently. This is the same thing that was seen with banking services. A retailer doesn’t need to build a vast branch network in order to attract customers; it can use its current network and contact the large existing customer base through it.” (Neilimo 2013)

From a revenue perspective shopassurance may at first be seen as a supporting business and then after it has been given time to develop it may evolve into a new service business area. This was the case with banking services in the S Group says Neilimo. All in all the insurance business is seen as a profitable line of business and an excellent complement to the financial services currently being offered by retailers.

Retailers are looking at ways to create a broad service offering with which they can attract and retain customers. Insurance offerings as well as the pharmacy business would be an excellent addition to the already broad offering of retailers. In a way there is a twofold effect with this explains Neilimo: these new businesses are profitable on their own and they also reinforce the relationship between the retailer and the customer on a broader level as well. Customers do not need to shop around once they know that their retailer offers all the services that they need. This then grows the profitability of other business lines as well. These motives are similar to the ones that Colgate and Alexander (2002) discovered while studying the reasons that led retailers to start offering financial services.

“It (P&C insurance) could become, and it surely would become, a profitable business for retailers.” (Neilimo 2013)

5.3.5 A business model canvas of shopassurance in Finland

Figure 25 shows a business model canvas that has been filled with the key points that were taken from the interviews. It serves as a visualization of a possible

shopassurance business model that could be implemented in Finland. It clearly shows the need for a business in which the activities of the retailer and insurer can be integrated. From an ownership perspective this requires the business model to be conducted at minimum on a level where a strategic alliance exists between the parties. The major difference from the four shopassurance cases presented earlier is the significance of the internet channel. Both Puntari and Neilimo emphasized the importance of the virtual distribution channel in the shopassurance business model. Also branding the offering under the retailer brand is key in order for the venture to be attractive, due to the general branding strategies implemented by the retailer.

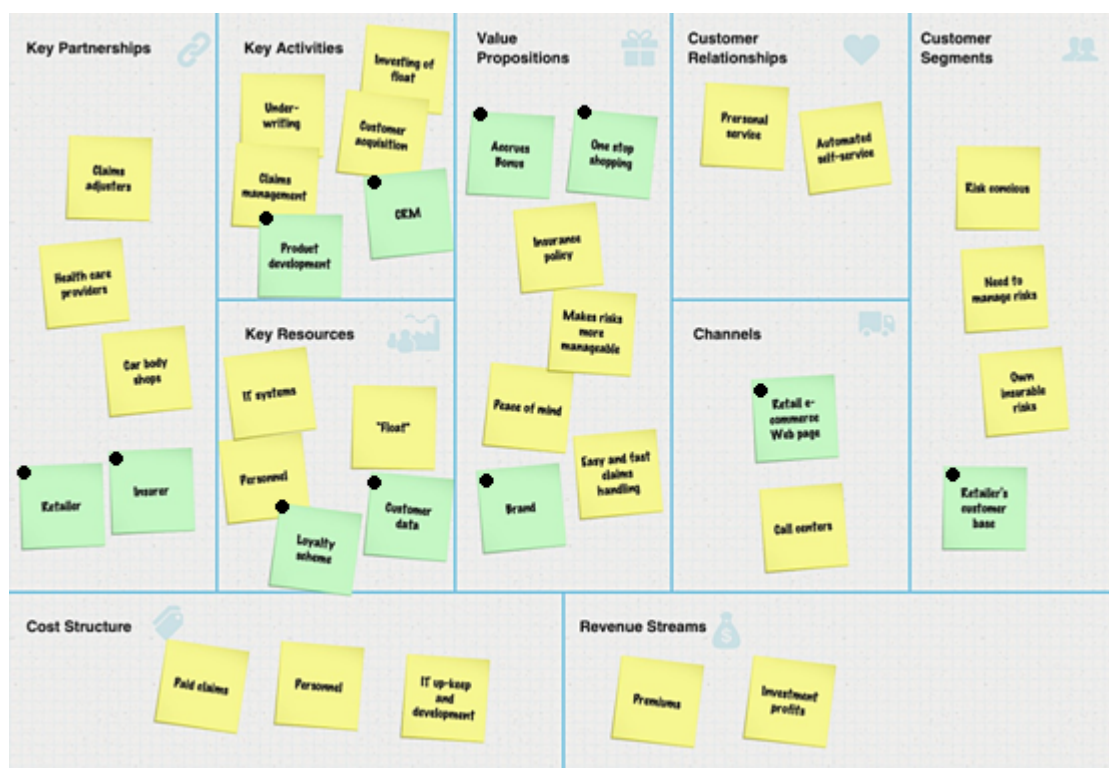


FIGURE 28 A possible shopassurance business model to be implemented in Finland

5.4 The feasibility of shopassurance in Finland

Both of the experts that were interviewed agreed that shopassurance will more than likely become a reality also in Finland. However no clear conclusion as to the type of business model that would be used can be drawn from such a small sample. From an insurer perspective a partnership with a strong retailer is seen as a very interesting possibility to create new services and products in the long run. By partnering with a

large retailer an insurer could conduct product innovation with a broad scope for example by creating new products that would be linked to the retailer's current offering and be already included in the price of products sold.

“It’s not out of the question that this (shopassurance) would be done in Finland. Of course now that we can already see that it is being done on a small scale with different types of setups, this is the direction that we will be going towards. However the form will still continue to change and develop. The same insurance offerings and business models will not be viable from here to eternity.”
(Puntari 2013)

Two major retailers dominate the market in Finland. To date both have had various agreements with insurers focusing mainly on their respective loyalty programs. Should the retailer sector start viewing the insurance business as a potentially profitable new line of business and as a service with which to better serve their customers the wider introduction of shopassurance to the Finnish market could certainly become reality. It is because of this interest in developing their service offering that the S Group has already been looking at various ways of bringing shopassurance to the Finnish market. Currently they have a strategic alliance with an insurer through which loyalty scheme Bonus can be accrued but a deeper level of co-operation in the shopassurance context is not out of the question.

“From the S Group’s perspective this is an interesting phenomenon about which a lot of research was done during my time and I believe that this is still relevant. It would be this type of business model that Tesco has which will be chosen, or would be chosen and in fact I think it is somewhat probable that it will be chosen. So in one way or the other entering the insurance business most likely with an own company will happen.” (Neilimo 2013)

As to the feasibility of retailers bringing their own proprietary insurance offerings to the market one only needs to look at what has taken place in other markets. The retail

sector in Finland has a strong and loyal customer base and they also poses the resources needed to enter into completely new business areas.

6 DISCUSSION AND CONCLUSIONS

The aim of this master's thesis was to approach the shopassurance phenomenon with a wider perspective than what had been done in previous studies. In order to create a deeper understanding of the phenomenon in general and to bring new knowledge to the discussion from a Finnish perspective as well.

The research was conducted in two parts. First a deeper understanding of retailer's financial services offerings was developed by reviewing the scattered existing information. Global cases of shopassurance were then looked at with the intent to identify the various elements that are emblematic to shopassurance business models. In the later part the insights gained in the first part were used to create semi-structured interviews with Finnish experts in the field of insurance and retail to bring the shopassurance phenomenon into a Finnish context.

6.1 Shopassurance as a business model

At time of writing there was little research conducted on the topic of shopassurance. Studies on retailers' entry into the financial service market existed but the main focus had been on banking activities not on insurance. Most of the previous research dealt with very specific areas of this phenomenon and did not address it from a wider point of view. The units of analysis ranged from the motivation of retailers to start offering financial services to how potential customers received the new offerings. Knowledge was lacking on retailers' entry into the insurance business as a whole, which had been identified as a final stage in the evolution of retailer financial service offerings.

By taking the business model as a unit of analysis it becomes clear that shopassurance is more than merely a new channel of distribution for insurance incumbents. As a business model shopassurance is not characterized by choices made in the distribution

channels but it can be seen as more of a general term for insurance business models in which there is co-operation between insurers and retailers relating to distribution and other aspects or where a retailer wholly owns the insurance business.

The role of a retailer's brand in a shopassurance varies. In markets where brand recognition in the personal insurance sector is low the benefits of marketing insurance with a well-known and trusted retailer brand are easy to grasp. The reason why retailers are eager to provide insurance under their own brand rather than the insurers' brand may be due to the broader branding strategy of the retailer. As retailers brand themselves through their offering and store concepts they are not eager to take on new brands that do not directly support their existing businesses.

Teunissen's (2008) bancassurance classification proved to be adaptable to shopassurance as well. This way different shopassurance business models could be classified based on ownership. From a business model perspective it is interesting to look at how the different elements of the business model vary according to the different ownership models. When a retailer is only present in the channel element as a distributor the differentiation possibilities with current insurance offerings are low. As the involvement of the retailer increases to customer relationships with for example a loyalty scheme a strategic alliance can be formed to facilitate data sharing between the insurer and retailer. When the retailer is involved in designing the customer value proposition (CVP) it can leverage its key processes of refining customer data and help produce insights that enable the creation of more appealing CVPs. Finally if the retailer is active in delivering the CVP itself, meaning that it operates through its own insurance company, the level of retailer involvement is at its highest as in the case with Tesco Bank.

6.2 Key Components of a shopassurance business model

At the heart of every business model is the customer value proposition. It frames the product or service that a company is producing in terms that describe the value that it can create with a customer. The core product's customer value propositions of shopassurers seem to be similar to existing personal insurance offerings. The main

changes to the core product, the insurance policy, consisted of simplification of the product in order to facilitate easier purchasing. However beyond this no significant innovation of the core product could be observed. The main differentiator between a shopassurer's customer value propositions seemed to have to do with the brand under which the insurance was marketed. This was especially true when the insurance was offered under the retailer's existing brand or the possible links to retailer's loyalty programs, which made the policyholder eligible for various benefits.

The main customer segments that were targeted by the shopassurers were the existing customer bases of the retailer's that were involved in the business model. It could be possible for an insurer to use multiple retailers as distributors but this would most likely make a deeper relationship between the insurer and retailers impossible, which in turn would limit the possibilities of co-operation especially in terms of CRM activities. A more plausible model would seem to be one where an insurer chooses a single retailer to partner with. Even if the co-operation started off as a pure distributor model it could then be developed to a strategic alliance later on.

From a channel perspective most of the cases examined had a strong Internet presence as well as a physical presence in the retailer's existing channel. The more involved the retailer was in the offering of insurance the more emphasis was placed on the Internet as a distribution channel whereas the physical locations seemed to serve as more of a way to raise awareness amongst potential customers.

Retailer entry into banking services has previously been explained by retailers' aspirations to deepen their relationships with their customers in order to create stronger loyalty bonds. Most of these studies had been released near the turn of the millennium while newer studies conducted have shown that retailers have in fact been successful in creating more loyalty and trust amongst their customers but this hasn't necessarily been because of the financial services being offered. From a customer relationship point of view the most interesting aspect of shopassurance has to do with the possibilities of leveraging the vast retailer customer databases to the insurance business. While there are limitations to using this information in the underwriting process it can still be used to create better marketing communication as well as to

create a deeper understanding of the customers processes' which could then be better served with innovative insurance products.

The infrastructure of a shopassurance business model changes according to the level of involvement from the retailer. While the basic processes and resources needed to facilitate the traditional insurance value chain are always present because the product itself is still similar there are differences especially in the weight put on CRM activities. In a business model where the retailer is heavily involved in the insurance business or has set up its own insurance business the emphasis on loyalty schemes is noticeable.

A key process in shopassurance is the refining of the raw customer data into actionable insights. The level of customer understanding that a retailer led shopassurance business model can produce is much deeper than what a traditional insurer can do. This has to do with the fact that insurers have just recently started moving away from risk-centered analysis to customer-centered analysis. The most successful retailers on the other hand have been gathering customer data with the aim of creating a better offering for some time now. Risk-centered analysis is mainly focused on the gathering of customer data in order to facilitate more efficient risk underwriting. The breadth of customer data that an insurer can collect is limited to their relationship with the policyholder. This relationship is defined by the insurance policy beyond, which insurers have little opportunity to gather more data on their customers. Retailers meanwhile can gather information on several aspects of their customers' lives beyond just shopping habits. This is made possible by the wide range of services that are being offered by large retailers such as Tesco.

It is clear that from a business model perspective shopassurance is not just about channel innovation. In existing shopassurance business models emphasis has also been put on other elements beyond channels. Most notably activities relating to the gathering and use of customer data have been developed. These elements are clear distinctions from traditional insurers business models because they do not have access to the key resource needed, the vast customer data gathered by retailers' loyalty programs.

6.3 Shopassurance in the Finnish insurance market

The Finnish retail market is highly concentrated and the two biggest players control over 80% of the market. A select few big companies also dominate the personal insurance market while smaller companies divide the little market share that is left. The fact that the S Group has already moved into the financial services market by establishing its own bank, the S-Bank serves as evidence of the fact that Finnish retailers are eyeing the financial services market for possible new business opportunities.

The expert interviews gave interesting views into the possibility of deploying a shopassurance business model in Finland. The insight that was gathered in the first phase of the study provided a basis onto, which a semi-structured interview was based on. By combining two different viewpoints, namely insurer and retailer, a snapshot of the various aspects of a shopassurance business model in the Finnish context could be created.

The consensus was that in order for shopassurance to be an attractive from of doing business there would need to be a deeper level of co-operation than just a distribution agreement between the insurer and retailer. In Finland where consumer financial services have already to a large extent moved to the Internet the possibility of offering insurance products at just the physical locations of the retailer was seen as outdated and inefficient.

While deploying a shopassurance business model the offering would need to consist of fairly simple and familiar insurance products. This is necessary in order to allow the customers the possibility of comparing the offering to the coverage that they currently have. This in itself is a challenge, as consumers already seem to have difficulties in comparing the offerings of incumbents. In the long run however hopes are put on the possibilities to develop interesting new insurance products in cooperation with the retailer.

Brand is a key question for retailers. The possibility to offer insurance under the retailer's brand seemed to be the most interesting possibility also for Finnish P&C insurance. The case might have been different if a representative from an incumbent Finnish interviewer would have been interviewed. Previous attempts at creating a white label offering for the S Group were hampered by branding related questions. Incumbent insurers could be expected to be reluctant to start offering insurance services under the brand of a retailer as this could be seen as cannibalization of their existing customer base. If this were true then there certainly would seem to exist a place in the market for an agile small insurer with the capability of creating insurance products for white label purposes.

On questions relating to customer segments it was evident that the primary target customers would be the existing customer base of the retailer. A big question then becomes is the customer base of the retailer big enough to support a profitable insurance business? At least in the case of the S-Group the amount of potential co-op members who could possibly become customers of an "S-Insurance" would seem to be more than adequate.

The most exciting channel to offer shopassurance products in Finland would seem to be the Internet and more specifically the existing retailer web portals. Physical locations were seen as somewhat unattractive due to the resources required in order to build a distribution network with wide enough coverage. As retailers are moving more and more into the online space it is understandable that also new service offerings that can be delivered virtually will be done in such a way. This was the case with the S Group's travel business that operates solely online. By using the Internet channel insurers have the chance to be present in a virtual environment that enjoys a higher volume of traffic when compared to their own websites. The online channel can also be scaled up to serve more customers much more easily than a physical distribution channel.

The biggest advantages that a retailer can bring to shopassurance business model are the existing customer base and the database on these customers. A complete database that contains an incredible depth of knowledge on existing customers would be invaluable to a shopassurance business. A key driver of a shopassurance business

model's success would then be how well it is able to utilize this information and translate it into an appealing customer value proposition.

The risks of entering into a joint venture model were not seen to be excessive. The basic business risks that are present in any joint venture business are present but no visions on significant future problems were voiced during the interviews. Over all shopassurance was seen as a possibility to create win-win situations between two different businesses that could have significant benefits for both partners. As to the probability of shopassurance business models being deployed in Finland in the future both interviewees felt that it is highly probable.

6.4 Further research

Now that a general overview of shopassurance business models has been established there are certain elements, which rewards further research. The cases that were presented in this study were from different markets and served only to give a general overview of the phenomenon and as such are not directly comparable. The United Kingdom has currently the most developed shopassurance business models. It would be interesting to conduct a business model level analysis of the various ventures to find out what different choices have been made and how these choices are reflected in the various business models.

As insurance is a highly regulated industry legislative limitations must be taken into account when developing new business models. Interesting areas of research would be the obstacles that are posed by limitations in the utilization of customer data in regard to insurance and especially underwriting and product development.

Going into a more specific level on shopassurance business models the applicability of retailer's customer data to the insurance business should be studied. Even though there is legislation in place in several countries that limit the use of retailer data in underwriting it should still be looked at as it is considered to be one of the most promising aspects of shopassurance. If it turns out that the data is more applicable in terms of marketing and product development than it is in underwriting then this would

indicate that a business model where the retailer controls all the elements may not be the most efficient option.

From a managerial point of view retailers would need to look at their current customers carefully and conduct studies in order to find out how open their customers are to the possibility of switching insurers and buying insurance directly from the retailer. This could give valuable foresight into the profitability of a possible shopassurance venture. Insurers on the other hand need to be vigilant and look for future competition that may come from outside their current market. Retailers have been actively entering new markets with concepts that rely heavily on their vast customer bases this is a resource that an insurer cannot replicate.

The use of the business model in an insurance context also calls for more research on the way current insurance industry incumbents compete with each other. Currently research has focused mainly on the product or level of service but it is becoming evident that instead of offerings competing it is rather the business models that are in competition with each other. By choosing the business model as a unit of analysis insurers can gain a deeper understanding of their competitive advantages and also a more realistic view of what their current business model can do.

6.5 In conclusion

The aim of this study was ambitious as the area of research was one that had received fairly little attention in previous research. The utilization of the business model as a theoretical framework provided interesting insights into the possibilities that shopassurance may provide from a larger perspective beyond just distribution. While the cases themselves were examples of certain markets and the analysis of the business models as such should not be generalized to other markets. The Finnish perspective provided a snapshot to the current state of shopassurance in Finland and insights into possible future developments. However as the amount of interviewees was small the results should be viewed more as opinions instead of a scientifically valid prediction of future scenarios.

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